

MUSKRAT FALLS CORPORATION
CONDENSED INTERIM FINANCIAL STATEMENTS
September 30, 2023
(Unaudited)

MUSKRAT FALLS CORPORATION
STATEMENT OF FINANCIAL POSITION
(Unaudited)

<i>As at (thousands of Canadian dollars)</i>	Notes	September 30 2023	December 31 2022
ASSETS			
Current assets			
Restricted cash		760,761	783,017
Trade and other receivables		36,833	28,722
Related party loan receivable	13	-	3,374
Short-term investments	4	34,639	34,372
Current portion of contract asset	5	278,091	165,466
Other current assets		3,108	2,035
Total current assets		1,113,432	1,016,986
Non-current assets			
Property, plant and equipment	3	6,386,288	6,427,204
Investments	4	183,237	200,557
Contract asset	5	37,228	-
Other long-term asset	13	3,126	3,126
Total assets		7,723,311	7,647,873
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	6	80,360	66,566
Current portion of long-term debt	7	34,639	34,372
Current portion of long-term payables	8	52,458	46,639
Related party loan payable	13	-	29,665
Total current liabilities		167,457	177,242
Non-current liabilities			
Long-term debt	7	4,412,639	4,430,022
Long-term payables	8	210,001	160,686
Total liabilities		4,790,097	4,767,950
Shareholder's equity			
Share capital		1,801,807	1,801,807
Shareholder contributions		1,177,596	1,169,486
Reserves		(42,865)	(45,120)
Deficit		(3,324)	(46,250)
Total equity		2,933,214	2,879,923
Total liabilities and equity		7,723,311	7,647,873

Commitments and contingencies (Note 14)

See accompanying notes

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

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Nine months ended	
		2023	2022	2023	2022
Revenue	13	128,963	121,901	418,670	359,925
Total revenue		128,963	121,901	418,670	359,925
Power purchased	13	-	15	8,110	5,071
Operating costs	10	6,391	5,760	16,371	22,365
Transmission expense	13	28,429	27,640	84,312	89,925
Depreciation		22,365	62	44,788	177
Net finance expense	11	25,570	30,365	77,768	91,411
Other expense		4,875	9,279	14,818	17,802
Total expenses		87,630	73,121	246,167	226,751
Profit for the period		41,333	48,780	172,503	133,174
Other comprehensive income					
Total items that may or have been reclassified to profit:					
Reclassification adjustment related to:					
Cash flow hedges recognized in profit		751	755	2,255	2,269
Other comprehensive income for the period		751	755	2,255	2,269
Total comprehensive income for the period		42,084	49,535	174,758	135,443

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		-	-	-	172,503	172,503
Other comprehensive income		-	-	2,255	-	2,255
Total comprehensive income for the period		-	-	2,255	172,503	174,758
Shareholder contributions	13	-	8,110	-	-	8,110
Dividends	9	-	-	-	(54,294)	(54,294)
Related party transaction	13	-	-	-	(75,283)	(75,283)
Balance at September 30, 2023		1,801,807	1,177,596	(42,865)	(3,324)	2,933,214
Balance at January 1, 2022		1	3,011,317	(48,143)	(126,735)	2,836,440
Profit for the period		-	-	-	133,174	133,174
Other comprehensive income		-	-	2,269	-	2,269
Total comprehensive income for the period		-	-	2,269	133,174	135,443
Shareholder contributions	13	-	5,071	-	-	5,071
Capital restructuring		1,847,724	(1,847,724)	-	-	-
Share redemption		(45,918)	-	-	-	(45,918)
Dividends	9	-	-	-	(30,054)	(30,054)
Related party transaction	13	-	-	-	(49,113)	(49,113)
Balance at September 30, 2022		1,801,807	1,168,664	(45,874)	(72,728)	2,851,869

See accompanying notes

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	
		2023	2022	2023	2022
Operating activities					
Profit for the period		41,333	48,780	172,503	133,174
Adjustments to reconcile profit to cash provided from operating activities:					
Depreciation and amortization		23,116	817	47,043	2,446
Revenue	13	(25,180)	(11,965)	(75,283)	(49,113)
Power purchased	13	-	15	8,110	5,071
Finance income	11	(12,038)	(8,038)	(35,392)	(14,217)
Finance expense	11	37,608	38,403	113,160	105,628
		64,839	68,012	230,141	182,989
Changes in non-cash working capital balances	15	2,737	1,842	(10,876)	(6,867)
Increase in long-term payables		17,717	16,416	55,134	53,127
Increase in contract asset		(38,462)	(38,691)	(149,853)	(111,904)
Change in other long-term asset		-	4,121	-	(112)
Interest received		11,839	7,026	35,183	11,303
Interest paid		(510)	(1,126)	(76,271)	(67,105)
Net cash provided from operating activities		58,160	57,600	83,458	61,431
Investing activities					
Change in related party loan receivable		-	(373)	3,359	9,419
Change in investments		-	-	17,053	(251,982)
Decrease in advances		-	-	-	839
Additions to property, plant and equipment		(1,082)	(7,838)	(3,872)	(33,202)
Changes in non-cash working capital balances	15	(66)	(94,891)	(21,375)	(101,320)
Net cash used in investing activities		(1,148)	(103,102)	(4,835)	(376,246)
Financing activities					
Change in restricted cash		(41,069)	54,086	22,256	(380,671)
Change in related party loan payable		-	6,920	(29,532)	(46,011)
Proceeds from long-term debt		-	-	-	834,288
Repayment of long-term debt		-	-	(17,053)	(16,819)
Share redemption		-	-	-	(45,918)
Dividends	9	(15,943)	(15,504)	(54,294)	(30,054)
Net cash (used in) provided from financing activities		(57,012)	45,502	(78,623)	314,815
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 November 16, 2023.

MUSKRAT FALLS CORPORATION

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

3. PROPERTY, PLANT AND EQUIPMENT

<i>(thousands of Canadian dollars)</i>	Hydraulic Generation	Service Facilities & Other	Construction in Progress	Total
Cost				
Balance at January 1, 2022	-	195,289	6,397,289	6,592,578
Additions	-	-	32,287	32,287
Other adjustments	-	-	(3,588)	(3,588)
Transfers	-	1,982	(1,982)	-
Balance at December 31, 2022	-	197,271	6,424,006	6,621,277
Additions	-	-	3,872	3,872
Transfers	6,405,852	10,110	(6,415,962)	-
Balance at September 30, 2023	6,405,852	207,381	11,916	6,625,149
Depreciation				
Balance at January 1, 2022	-	193,836	-	193,836
Depreciation	-	237	-	237
Balance at December 31, 2022	-	194,073	-	194,073
Depreciation	44,482	306	-	44,788
Balance at September 30, 2023	44,482	194,379	-	238,861
Carrying value				
Balance at January 1, 2022	-	1,453	6,397,289	6,398,742
Balance at December 31, 2022	-	3,198	6,424,006	6,427,204
Balance at September 30, 2023	6,361,370	13,002	11,916	6,386,288

On April 14, 2023, commissioning of the LIL was approved by all required stakeholders. As a result, all components of the Lower Churchill Project, including the MF Plant, were put into service. The categories of property, plant and equipment have been updated to reflect this change, including the comparative information to conform to the current year presentation.

Capitalized Borrowing Costs

Construction of the MF Plant was financed through the issuance of long-term debt and contributed capital. For the period ended September 30, 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	September 30 2023	December 31 2022
Amortizing Fixed Rate Deposit Notes with interest paid at a rate of 3.745% per annum.	2023- 2029	217,876	234,929
Less: redemptions to be received within one year		(34,639)	(34,372)
		183,237	200,557

MUSKRAT FALLS CORPORATION

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

5. CONTRACT ASSET

	September 30	December 31
<i>As at (thousands of Canadian dollars)</i>	2023	2022
Contract asset, beginning of the period	165,466	17,573
Revenue recognized	336,385	389,444
Payments	(186,532)	(241,551)
Contract asset, end of the period	315,319	165,466
Less: current portion	(278,091)	(165,466)
	37,228	-

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. TRADE AND OTHER PAYABLES

	September 30	December 31
<i>As at (thousands of Canadian dollars)</i>	2023	2022
Accrued interest	49,491	12,394
Due to related parties	25,064	28,212
Trade payables and accruals	5,805	25,960
	80,360	66,566

7. LONG-TERM DEBT

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

	Face	Coupon	Year of	Year of	September 30	December 31
<i>As at (thousands of Canadian dollars)</i>	Value	Rate %	Issue	Maturity	2023	2022
Tranche A	542,287	3.63	2013	2029	542,359	542,368
Tranche B	563,144	3.83	2013	2037	563,197	563,200
Tranche C	1,063,717	3.86	2013	2048	1,063,870	1,063,875
Tranche 7-10	69,866	1.59-1.75	2017	2023-2025	69,869	86,924
Tranche 11-20	187,117	1.84-2.37	2017	2025-2030	187,139	187,144
Tranche 21-30	210,737	2.41-2.64	2017	2030-2035	210,806	210,811
Tranche 31-40	240,429	2.66-2.80	2017	2035-2040	240,615	240,625
Tranche 41-50	276,180	2.81-2.86	2017	2040-2045	276,413	276,422
Tranche 51-60	317,934	2.84-2.86	2017	2045-2050	318,293	318,303
Tranche 61-64	140,205	2.85	2017	2050-2052	140,429	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	4,445,904				4,447,278	4,464,394
Less: maturities of debt within one year					(34,639)	(34,372)
					4,412,639	4,430,022

MUSKRAT FALLS CORPORATION

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

8. LONG-TERM PAYABLES

	September 30	December 31
<i>As at (thousands of Canadian dollars)</i>	2023	2022
Long-term payables, beginning of the period	207,325	133,104
Additions	85,103	111,937
Payments	(29,969)	(37,716)
Long-term payables, end of the period	262,459	207,325
Less: current portion	(52,458)	(46,639)
	210,001	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.

9. SHAREHOLDER'S EQUITY

Dividends

	Three months ended		Nine months ended	
<i>For the period ended September 30 (thousands of Canadian dollars)</i>	2023	2022	2023	2022
Declared and paid during the period				
Preferred dividend for current period (3% coupon rate)	13,625	13,625	40,430	28,175
Common dividend for current period	2,318	1,879	13,864	1,879
	15,943	15,504	54,294	30,054

10. OPERATING COSTS

	Three months ended		Nine months ended	
<i>For the period ended September 30 (thousands of Canadian dollars)</i>	2023	2022	2023	2022
Maintenance and materials	2,954	1,572	6,034	4,557
Salaries and benefits	1,557	1,640	4,313	5,038
Insurance	720	772	2,086	2,432
Professional services	479	936	1,980	8,040
Other operating costs	681	840	1,958	2,298
	6,391	5,760	16,371	22,365

11. NET FINANCE EXPENSE

	Three months ended		Nine months ended	
<i>For the period ended September 30 (thousands of Canadian dollars)</i>	2023	2022	2023	2022
Finance income				
Interest on restricted cash	9,959	5,637	28,949	9,204
Interest on investments	2,057	2,379	6,355	4,852
Other interest	22	22	88	161
	12,038	8,038	35,392	14,217
Finance expense				
Interest and fees on long-term debt	37,118	37,245	111,463	100,498
Other interest	490	1,158	1,697	1,542
	37,608	38,403	113,160	102,040
Interest capitalized during construction	-	-	-	3,588
	37,608	38,403	113,160	105,628
Net finance expense	25,570	30,365	77,768	91,411

MUSKRAT FALLS CORPORATION

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

12. FINANCIAL INSTRUMENTS

Fair Value

The estimated fair values of financial instruments as at September 30, 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.

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, 2023 and the year ended December 31, 2022.

As at September 30, 2023 and December 31, 2022, the Company did not have any Level 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		September 30, 2023		December 31, 2022	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Investments, including short-term	2	217,876	199,829	234,929	220,225
Financial liabilities					
Long-term debt including amount due within one year	2	4,447,278	3,710,804	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.

MUSKRAT FALLS CORPORATION

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

13. RELATED PARTY TRANSACTIONS

Musktrat 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.

Related parties with which Musktrat Falls transacts are as follows:

<u>Related Party</u>	<u>Relationship</u>
Nalcor	100% shareholder of Musktrat 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

MUSKRAT FALLS CORPORATION

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

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>		September 30	December 31
		2023	2022
Trade and other receivables:			
Other related parties		31,713	23,431
The Province		436	-
Related party loan receivable:			
Other related parties	(a)	-	3,374
Contract asset (including current portion):			
Other related parties	Note 5	315,319	165,466
Other long-term asset:			
Other related parties	Note 14(d)	3,126	3,126
Trade and other payables:			
Parent		5,274	7,769
The Province	(e)	9,056	12,968
Other related parties		10,734	7,475
Related party loan payable:			
Other related parties	(b)	-	29,665
Long-term payables (including current portion):			
Other related parties	Note 8	262,459	207,325
		Three months ended	Nine months ended
<i>For the period ended September 30 (thousands of Canadian dollars)</i>		2023	2022
		2023	2022
Revenue:			
Parent	(c)	25,180	11,965
Other related parties		103,783	109,936
Power purchased:			
Other related parties	(d)	-	15
Operating costs:			
Parent		1,399	1,521
Transmission expense:			
Other related parties		28,429	27,640
Other expense:			
The Province	(e)	2,633	7,162
Other related parties		-	-
		500	-

- (a) Muskrat Falls had a related party loan receivable with Labrador Transco which included interest charged at 5.43% and payable from Labrador Transco as cash became available while still meeting its debt servicing costs.
- (b) Muskrat Falls had a related party loan payable with Hydro which included interest charged at 5.43% and was payable as cash became 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 a water rental fee based on megawatt hours of energy generated, which is payable on an annual basis, in the first quarter of the following fiscal year.

MUSKRAT FALLS CORPORATION

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

14. 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 September 30, 2023 total \$691.9 million within one year and \$36,945.0 million in more than one year.
- (b) As part of the MF/LTA Project Finance Agreement, 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 September 30, 2023 Muskrat Falls has the equivalent of approximately 1.8 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 \$1.6 million as at September 30, 2023 (December 31, 2022 - \$7.4 million).

15. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2023	2022	2023	2022
Trade and other receivables	(633)	(1,158)	(7,875)	(14,959)
Prepayments	(2,095)	(1,879)	(704)	(297)
Inventories	(72)	(175)	(369)	(478)
Trade and other payables	5,471	(89,837)	(23,303)	(92,453)
Changes in non-cash working capital balances	2,671	(93,049)	(32,251)	(108,187)
Related to:				
Operating activities	2,737	1,842	(10,876)	(6,867)
Investing activities	(66)	(94,891)	(21,375)	(101,320)
	2,671	(93,049)	(32,251)	(108,187)