

MUSKRAT FALLS CORPORATION
CONDENSED INTERIM FINANCIAL STATEMENTS
March 31, 2024
(Unaudited)

MUSKRAT FALLS CORPORATION
STATEMENT OF FINANCIAL POSITION
(Unaudited)

<i>As at (thousands of Canadian dollars)</i>	Notes	March 31 2024	December 31 2023
ASSETS			
Current assets			
Restricted cash		760,316	728,044
Trade and other receivables		12,099	14,518
Short-term investments		34,933	34,933
Current portion of contract asset	4	277,743	273,730
Other current assets		1,958	2,540
Total current assets		1,087,049	1,053,765
Non-current assets			
Property, plant and equipment	3	6,343,503	6,365,412
Investments		165,624	165,624
Contract asset	4	338,333	177,566
Other long-term asset	12	3,280	3,280
Total assets		7,937,789	7,765,647
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	5	79,916	49,921
Current portion of long-term debt	6	34,933	34,933
Current portion of long-term payables	7	45,834	45,418
Total current liabilities		160,683	130,272
Non-current liabilities			
Long-term debt	6	4,394,982	4,395,004
Long-term payables	7	255,125	235,249
Total liabilities		4,810,790	4,760,525
Shareholder's equity			
Share capital		1,801,807	1,801,807
Shareholder contributions		1,178,769	1,177,703
Reserves		(41,367)	(42,116)
Retained earnings		187,790	67,728
Total equity		3,126,999	3,005,122
Total liabilities and equity		7,937,789	7,765,647

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	
		2024	2023
Revenue	12	266,888	142,044
Total revenue		266,888	142,044
Power purchased	12	1,066	6,509
Operating costs	9	5,568	4,712
Transmission expense	12	28,514	27,087
Depreciation	3	22,423	58
Net finance expense	10	25,926	26,486
Other expense		6,676	4,536
Total expenses		90,173	69,388
Profit for the period		176,715	72,656
Other comprehensive income			
Total items that may or have been reclassified to profit:			
Reclassification adjustment related to:			
Cash flow hedges recognized in profit		749	753
Other comprehensive income for the period		749	753
Total comprehensive income for the period		177,464	73,409

See accompanying notes

MUSKRAT FALLS CORPORATION
STATEMENT OF CHANGES IN EQUITY
(Unaudited)

<i>(thousands of Canadian dollars)</i>	Notes	Share Capital	Shareholder Contributions	Reserves	Retained earnings (deficit)	Total
Balance at January 1, 2024		1,801,807	1,177,703	(42,116)	67,728	3,005,122
Profit for the period		-	-	-	176,715	176,715
Other comprehensive income		-	-	749	-	749
Total comprehensive income for the period		-	-	749	176,715	177,464
Shareholder contributions	12	-	1,066	-	-	1,066
Dividends	8	-	-	-	(18,811)	(18,811)
Related party transactions	12	-	-	-	(37,842)	(37,842)
Balance at March 31, 2024		1,801,807	1,178,769	(41,367)	187,790	3,126,999
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 transactions	12	-	-	-	(24,686)	(24,686)
Balance at March 31, 2023		1,801,807	1,175,995	(44,367)	(11,608)	2,921,827

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	
		2024	2023
Operating activities			
Profit for the period		176,715	72,656
Adjustments to reconcile profit to cash provided from operating activities:			
Depreciation	3	22,423	58
Reserves amortized to profit		749	753
Revenue	12	(37,842)	(24,686)
Power purchased	12	1,066	6,509
Finance income	10	(11,944)	(11,397)
Finance expense	10	37,870	37,883
		189,037	81,776
Changes in non-cash working capital balances	14	(3,859)	(11,964)
Increase in long-term payables		20,292	18,459
Increase in contract asset		(164,780)	(54,229)
Interest received		11,904	11,297
Interest paid		(815)	(751)
Net cash provided from operating activities		51,779	44,588
Investing activities			
Decrease in related party loan receivable		-	2,273
Additions to property, plant and equipment	3	(514)	(1,262)
Changes in non-cash working capital balances	14	(182)	(9,303)
Net cash used in investing activities		(696)	(8,292)
Financing activities			
Increase in restricted cash		(32,272)	(18,716)
Decrease in related party loan payable		-	(4,252)
Dividends	8	(18,811)	(13,328)
Net cash used in financing activities		(51,083)	(36,296)
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

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

Musktrat Falls' principal activity is to operate the Musktrat Falls hydroelectric generating facility (MF Plant) on the lower Churchill River.

Musktrat 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. Musktrat 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 (Labrador) Corporation (Churchill Falls) hydroelectric facility and Hydro's Labrador transmission assets. Under the terms of the GIA, Musktrat Falls is required to pay for all costs associated with the Labrador Transmission Assets (LTA). Under the terms of the PPA, Musktrat Falls will recover all costs associated with the MF Plant as well as the costs incurred by Musktrat Falls under the GIA. Hydro's obligation to pay for the costs under the PPA is absolute, non-conditional and irrevocable.

2. MATERIAL 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, 2023.

These condensed interim financial statements do not include all of the disclosures normally found in Musktrat 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 Musktrat 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, 2024.

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 and Other	Construction in Progress	Total
Cost				
Balance at January 1, 2023	-	197,271	6,424,006	6,621,277
Additions	-	-	5,397	5,397
Transfers	6,405,995	20,197	(6,426,192)	-
Balance at December 31, 2023	6,405,995	217,468	3,211	6,626,674
Additions	-	-	514	514
Balance at March 31, 2024	6,405,995	217,468	3,725	6,627,188
Depreciation				
Balance at January 1, 2023	-	194,073	-	194,073
Depreciation	66,726	463	-	67,189
Balance at December 31, 2023	66,726	194,536	-	261,262
Depreciation	22,238	185	-	22,423
Balance at March 31, 2024	88,964	194,721	-	283,685
Carrying value				
Balance at January 1, 2023	-	3,198	6,424,006	6,427,204
Balance at December 31, 2023	6,339,269	22,932	3,211	6,365,412
Balance at March 31, 2024	6,317,031	22,747	3,725	6,343,503

4. CONTRACT ASSET

<i>As at (thousands of Canadian dollars)</i>	March 31 2024	December 31 2023
Contract asset, beginning of the period	451,296	165,466
Revenue recognized	231,617	535,761
Payments	(66,837)	(249,931)
Contract asset, end of the period	616,076	451,296
Less: current portion	(277,743)	(273,730)
	338,333	177,566

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

5. TRADE AND OTHER PAYABLES

<i>As at (thousands of Canadian dollars)</i>	March 31 2024	December 31 2023
Accrued interest	49,399	12,350
Due to related parties	25,842	31,593
Trade payables and accruals	4,675	5,978
	79,916	49,921

MUSKRAT FALLS CORPORATION

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

6. 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	March 31 2024	December 31 2023
Tranche A	542,287	3.63	2013	2029	542,352	542,355
Tranche B	563,144	3.83	2013	2037	563,195	563,196
Tranche C	1,063,717	3.86	2013	2048	1,063,867	1,063,869
Tranche 8-10	52,546	1.62-1.75	2017	2024-2025	52,548	52,549
Tranche 11-20	187,117	1.84-2.37	2017	2025-2030	187,136	187,138
Tranche 21-30	210,737	2.41-2.64	2017	2030-2035	210,802	210,804
Tranche 31-40	240,429	2.66-2.80	2017	2035-2040	240,609	240,612
Tranche 41-50	276,180	2.81-2.86	2017	2040-2045	276,407	276,410
Tranche 51-60	317,934	2.84-2.86	2017	2045-2050	318,285	318,289
Tranche 61-64	140,205	2.85	2017	2050-2052	140,426	140,427
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	4,428,584				4,429,915	4,429,937
Less: maturities of debt within one year					(34,933)	(34,933)
					4,394,982	4,395,004

7. LONG-TERM PAYABLES

<i>As at (thousands of Canadian dollars)</i>	March 31 2024	December 31 2023
Long-term payables, beginning of the period	280,667	207,325
Additions	28,514	114,727
Payments	(8,222)	(41,385)
Long-term payables, end of the period	300,959	280,667
Less: current portion	(45,834)	(45,418)
	255,125	235,249

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

8. SHAREHOLDER'S EQUITY

Dividends

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Three months ended	
	2024	2023
Declared and paid during the period		
Preferred dividend for current period (3% coupon rate)	13,477	13,328
Common dividend for current period	5,334	-
	18,811	13,328

MUSKRAT FALLS CORPORATION

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

9. OPERATING COSTS

	Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	2024	2023
Maintenance and materials	1,795	1,246
Salaries and benefits	1,523	1,294
Other operating costs	932	586
Insurance	718	683
Professional services	600	903
	5,568	4,712

10. NET FINANCE EXPENSE

	Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	2024	2023
Finance income		
Interest on restricted cash	10,050	9,184
Interest on investments	1,873	2,169
Other interest	21	44
	11,944	11,397
Finance expense		
Interest and fees on long-term debt	37,049	37,183
Other interest	821	700
	37,870	37,883
Net finance expense	25,926	26,486

11. FINANCIAL INSTRUMENTS

Fair Value

The estimated fair values of financial instruments as at March 31, 2024 and December 31, 2023 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).

MUSKRAT FALLS CORPORATION

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

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, 2024 and the year ended December 31, 2023.

As at March 31, 2024 and December 31, 2023, the Company did not have any Level 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		March 31, 2024		December 31, 2023	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Investments, including short-term	2	200,557	191,285	200,557	196,460
Financial liabilities					
Long-term debt, including amount due within one year	2	4,429,915	3,971,930	4,429,937	4,137,068

The fair values of restricted cash, trade and other receivables and trade and other payables 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 normally within 30 days.

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
Nalcor Energy Marketing Corporation (Energy Marketing)	Wholly-owned subsidiary of Nalcor
The Province	100% shareholder of Nalcor
Churchill Falls	Joint arrangement of Hydro
Lower Churchill Management Corporation	Wholly-owned subsidiary of Nalcor
Labrador-Island Link Operating Corporation	Wholly-owned subsidiary of Nalcor
Labrador-Island Link Limited Partnership	Limited partnership between Labrador-Island Link Holding Corporation and ENL Island Link Incorporated (Emera NL)

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>		March 31	December 31
		2024	2023
Trade and other receivables:			
Other related parties		7,346	9,276
The Province		-	436
Contract asset (including current portion):			
Other related parties	Note 4	616,076	451,296
Other long-term asset:			
Other related parties	Note 13(d)	3,280	3,280
Trade and other payables:			
Parent	Note 5	9,377	7,273
The Province	(a)	4,452	13,028
Other related parties		12,013	11,292
Long-term payables (including current portion):			
Other related parties	Note 7	300,959	280,667
		Three months ended	
		2024	2023
<i>For the period ended March 31 (thousands of Canadian dollars)</i>			
Revenue:			
Parent	(b)	37,842	24,686
Other related parties	(c)	229,046	117,358
Power purchased:			
Other related parties	(d)	1,066	6,509
Operating costs:			
Parent		1,815	1,106
Other related parties		30	-
Transmission expense:			
Other related parties	(e)	28,514	27,087
Other expense:			
The Province	(a)	4,457	3,677
Other related parties		-	500

- (a) 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.
- (b) Muskrat Falls has revenue and contributed energy to Nalcor related to delivery of the Nova Scotia Block.
- (c) Muskrat Falls has revenue from Hydro and Energy Marketing in relation to the PPA and Residual Block sales.
- (d) Muskrat Falls has an expense with Hydro and a contribution of power purchases from Nalcor related to delivery of the Nova Scotia Block.
- (e) Muskrat Falls has a transmission expense with Labrador Transco in relation to the GIA.

MUSKRAT FALLS CORPORATION

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

13. COMMITMENTS AND CONTINGENCIES

- (a) Muskrat Falls has entered into the GIA and PPA with Labrador Transco and Hydro, 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, 2024 is \$735 million (December 31, 2023 - \$616 million) within one year and \$36,761 million (December 31, 2023 - \$37,111 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 NL 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 NL.
- (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, 2024 Muskrat Falls has the equivalent of approximately 2.1 TWh (December 31, 2023 – 2.0 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 \$1.0 million as at March 31, 2024 (December 31, 2023 - \$2.1 million).

14. SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	2024	2023
Trade and other receivables	2,431	(3,728)
Prepayments	730	695
Inventories	(148)	(186)
Trade and other payables	(7,054)	(18,048)
Changes in non-cash working capital balances	(4,041)	(21,267)
Related to:		
Operating activities	(3,859)	(11,964)
Investing activities	(182)	(9,303)
	(4,041)	(21,267)

15. SUBSEQUENT EVENT

On April 19, 2024, a fire damaged inventory and capital spares, related to the Lower Churchill Project assets, held in a storage facility in Happy Valley Goose Bay. The extent of the financial impact on Muskrat Falls is currently under investigation.