

MUSKRAT FALLS CORPORATION
CONDENSED INTERIM FINANCIAL STATEMENTS
March 31, 2025
(Unaudited)

MUSKRAT FALLS CORPORATION
STATEMENT OF FINANCIAL POSITION
(Unaudited)

<i>As at (thousands of Canadian dollars)</i>	<i>Notes</i>	March 31 2025	December 31 2024
ASSETS			
Current assets			
Restricted cash		791,047	772,850
Trade and other receivables		20,155	27,990
Short-term investments		35,550	35,550
Current portion of contract asset	4	299,768	325,315
Other current assets		5,581	4,773
Total current assets		1,152,101	1,166,478
Non-current assets			
Property, plant and equipment	3	6,253,892	6,276,292
Investments		130,074	130,074
Contract asset	4	712,888	400,520
Other long-term asset	12	3,520	3,344
Total assets		8,252,475	7,976,708
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	5	110,573	72,646
Current portion of long-term debt	6	35,550	35,550
Current portion of long-term payables	7	45,727	45,527
Total current liabilities		191,850	153,723
Non-current liabilities			
Long-term debt	6	4,359,348	4,359,369
Long-term payables	7	324,079	301,190
Total liabilities		4,875,277	4,814,282
Shareholder's equity			
Share capital		1,801,807	1,801,807
Shareholder contributions		1,178,553	1,178,553
Reserves		(38,425)	(39,152)
Retained earnings		435,263	221,218
Total equity		3,377,198	3,162,426
Total liabilities and equity		8,252,475	7,976,708

Commitments and contingencies (Note 13)

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	
		2025	2024
Revenue	12	359,990	266,888
Total revenue		359,990	266,888
Power purchased	12	-	1,066
Operating costs	9	10,304	5,568
Transmission expense	12	28,570	28,514
Depreciation	3	22,454	22,423
Net finance expense	10	29,163	25,926
Other expense		1,754	6,676
Total expenses		92,245	90,173
Profit for the period		267,745	176,715
Other comprehensive income			
Total items that may or have been reclassified to profit:			
Reclassification adjustment related to:			
Cash flow hedges recognized in profit		727	749
Other comprehensive income for the period		727	749
Total comprehensive income for the period		268,472	177,464

See accompanying notes

MUSKRAT FALLS CORPORATION
STATEMENT OF CHANGES IN EQUITY
(Unaudited)

	Notes	Share Capital	Shareholder Contributions	Reserves	Retained earnings	Total
<i>(thousands of Canadian dollars)</i>						
Balance at January 1, 2025		1,801,807	1,178,553	(39,152)	221,218	3,162,426
Profit for the period		-	-	-	267,745	267,745
Other comprehensive income		-	-	727	-	727
Total comprehensive income for the period		-	-	727	267,745	268,472
Dividends	8	-	-	-	(24,412)	(24,412)
Related party transactions	12(b)	-	-	-	(29,288)	(29,288)
Balance at March 31, 2025		1,801,807	1,178,553	(38,425)	435,263	3,377,198
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(b)	-	-	-	(37,842)	(37,842)
Balance at March 31, 2024		1,801,807	1,178,769	(41,367)	187,790	3,126,999

See accompanying notes

MUSKRAT FALLS CORPORATION
STATEMENT OF CASH FLOWS
(Unaudited)

		Three months ended	
	Notes	2025	2024
For the period ended March 31 (thousands of Canadian dollars)			
Operating activities			
Profit for the period		267,745	176,715
Adjustments to reconcile profit to cash provided from operating activities:			
Depreciation	3	22,454	22,423
Reserves amortized to profit		727	749
Revenue	12(b)	(29,288)	(37,842)
Power purchased	12	-	1,066
Finance income	10	(8,242)	(11,944)
Finance expense	10	37,405	37,870
		290,801	189,037
Changes in non-cash working capital balances	14	7,683	(3,859)
Increase in long-term payables		23,089	20,292
Increase in contract asset		(286,821)	(164,780)
Increase in other long-term asset		(176)	-
Interest received		8,681	11,904
Interest paid		(586)	(815)
Net cash provided from operating activities		42,671	51,779
Investing activities			
Additions to property, plant and equipment	3	(54)	(514)
Changes in non-cash working capital balances	14	(8)	(182)
Net cash used in investing activities		(62)	(696)
Financing activities			
Increase in restricted cash		(18,197)	(32,272)
Dividends	8	(24,412)	(18,811)
Net cash used in financing activities		(42,609)	(51,083)
Net increase (decrease) in cash		-	-
Cash, beginning of the period		-	-
Cash, end of the period		-	-

See accompanying notes

MUSKRAT FALLS CORPORATION

NOTES TO 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 Newfoundland and Labrador Hydro (Hydro). 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 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 (Labrador) Corporation (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.

- 1.1 Effective January 1, 2025, Nalcor Energy and its wholly owned subsidiary Newfoundland and Labrador Hydro were legislatively amalgamated into Hydro, a new legal corporation that continues under the name "Newfoundland and Labrador Hydro". The amalgamation was accounted for as a business combination under common control. Upon the amalgamation, Muskrat Falls is wholly owned and controlled by the amalgamated entity (Hydro).

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, 2024.

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 Hydro, which approved the condensed interim financial statements on May 14, 2025.

MUSKRAT FALLS CORPORATION
NOTES TO 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, 2024	6,405,995	217,468	3,211	6,626,674
Additions	-	-	2,654	2,654
Disposals	(2,052)	-	-	(2,052)
Transfers	1,297	2,115	(3,412)	-
Balance at December 31, 2024	6,405,240	219,583	2,453	6,627,276
Additions	-	-	54	54
Balance at March 31, 2025	6,405,240	219,583	2,507	6,627,330
Depreciation				
Balance at January 1, 2024	66,726	194,536	-	261,262
Depreciation	88,946	776	-	89,722
Balance at December 31, 2024	155,672	195,312	-	350,984
Depreciation	22,248	206	-	22,454
Balance at March 31, 2025	177,920	195,518	-	373,438
Carrying value				
Balance at January 1, 2024	6,339,269	22,932	3,211	6,365,412
Balance at December 31, 2024	6,249,568	24,271	2,453	6,276,292
Balance at March 31, 2025	6,227,320	24,065	2,507	6,253,892

4. CONTRACT ASSET

<i>As at (thousands of Canadian dollars)</i>	March 31 2025	December 31 2024
Contract asset, beginning of the period	725,835	451,296
Revenue recognized	384,325	549,898
Payments	(97,504)	(275,359)
Contract asset, end of the period	1,012,656	725,835
Less: current portion	(299,768)	(325,315)
	712,888	400,520

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>	Note	March 31 2025	December 31 2024
Accrued interest		49,206	12,301
Due to related parties	12	45,787	54,032
Trade payables and accruals		15,580	6,313
		110,573	72,646

MUSKRAT FALLS CORPORATION
NOTES TO 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 2025	December 31 2024
Tranche A	542,287	3.63	2013	2029	542,341	542,343
Tranche B	563,144	3.83	2013	2037	563,191	563,192
Tranche C	1,063,717	3.86	2013	2048	1,063,862	1,063,863
Tranche 10	17,613	1.75	2017	2025	17,613	17,613
Tranche 11-20	187,117	1.84-2.37	2017	2025-2030	187,130	187,132
Tranche 21-30	210,737	2.41-2.64	2017	2030-2035	210,794	210,796
Tranche 31-40	240,429	2.66-2.80	2017	2035-2040	240,596	240,600
Tranche 41-50	276,180	2.81-2.86	2017	2040-2045	276,395	276,398
Tranche 51-60	317,934	2.84-2.86	2017	2045-2050	318,271	318,275
Tranche 61-64	140,205	2.85	2017	2050-2052	140,417	140,419
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	4,393,651				4,394,898	4,394,919
Less: maturities of debt within one year					(35,550)	(35,550)
					4,359,348	4,359,369

7. LONG-TERM PAYABLES

<i>As at (thousands of Canadian dollars)</i>	March 31 2025	December 31 2024
Long-term payables, beginning of the period	346,717	280,667
Additions	28,570	114,264
Payments	(5,481)	(48,214)
Long-term payables, end of the period	369,806	346,717
Less: current portion	(45,727)	(45,527)
	324,079	301,190

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 2025	Three months ended 2024
Declared and paid during the period		
Preferred dividend for current period (3% coupon rate)	13,328	13,477
Common dividend for current period	11,084	5,334
	24,412	18,811

MUSKRAT FALLS CORPORATION
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

9. OPERATING COSTS

	Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	2025	2024
Impacts and Benefits agreement and amendment	3,443	-
Maintenance and materials	2,262	1,795
Salaries and benefits	1,892	1,523
Professional services	1,139	600
Insurance	661	718
Other operating costs	907	932
	10,304	5,568

10. NET FINANCE EXPENSE

	Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	2025	2024
Finance income		
Interest on restricted cash	6,691	10,050
Interest on investments	1,529	1,873
Other interest	22	21
	8,242	11,944
Finance expense		
Interest and fees on long-term debt	36,904	37,049
Other interest	501	821
	37,405	37,870
Net finance expense	29,163	25,926

11. FINANCIAL INSTRUMENTS

Fair Value

The estimated fair values of financial instruments as at March 31, 2025 and December 31, 2024 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 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, 2025 and the year ended December 31, 2024.

As at March 31, 2025 and December 31, 2024, the Company did not have any Level 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>(thousands of Canadian dollars)</i>		March 31, 2025		December 31, 2024	
Financial assets					
Investments, including short-term	2	165,624	169,012	165,624	166,992
Financial liabilities					
Long-term debt, including amount due within one year	2	4,394,898	4,096,453	4,394,919	4,049,822

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

MUSKRAT FALLS CORPORATION
NOTES TO 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 2025	December 31 2024
Trade and other receivables:			
Parent		8,527	18,692
Other related parties		1,432	5,357
Contract asset (including current portion):			
Parent	Note 4	1,012,656	725,835
Other long-term asset:			
Other related parties	Note 13(d)	3,520	3,344
Trade and other payables:			
Parent	Note 5	41,756	38,573
The Province	(a)	3,964	15,250
Other related parties		67	209
Long-term payables (including current portion):			
Other related parties	Note 7	369,806	346,717
<i>For the period ended March 31 (thousands of Canadian dollars)</i>		Three months ended 2025	2024
Revenue:			
Parent	(b)(c)	348,775	267,684
Other related parties	(d)	11,215	(796)
Power purchased:			
Parent	(e)	-	1,066
Operating costs:			
Parent		2,273	1,815
Other related parties		30	30
Transmission expense:			
Other related parties	(f)	28,570	28,514
Other expense:			
The Province	(a)	4,014	4,457

- (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 earned revenue from contributed energy to Hydro related to delivery of the Nova Scotia Block of \$29.3 million (March 31, 2024 - \$37.8 million).
- (c) Muskrat Falls earned revenue from Hydro in relation to the PPA.
- (d) Muskrat Falls earned revenue from Energy Marketing in relation to the Residual Block sales.
- (e) Muskrat Falls has an expense and a contribution of power purchases with Hydro related to delivery of the Nova Scotia Block.
- (f) Muskrat Falls has a transmission expense with Labrador Transco in relation to the GIA.

MUSKRAT FALLS CORPORATION**NOTES TO 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, 2025 is \$616 million (December 31, 2024 - \$754 million) within one year and \$36,266 million (December 31, 2024 - \$36,512 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) Hydro has entered into the Energy and Capacity Agreement with Emera Incorporated (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. Hydro 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, 2025 Muskrat Falls has the equivalent of approximately 1.1 TWh (December 31, 2024 - 1.0 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 \$0.8 million as at March 31, 2025 (December 31, 2024 - \$0.4 million).
- (g) On October 24, 2024, Hydro and the Innu Nation amended the Lower Churchill Innu Impacts and Benefits Agreement (IBA) to reflect an agreement on rate mitigation. Under this agreement, Hydro has committed with Muskrat Falls to pay the Innu Nation an annual amount of \$12 million escalating at CPI, for a term of 50 years, replacing all other IBA payments associated with Muskrat Falls.

14. SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	2025	2024
Trade and other receivables	7,461	2,431
Prepayments	673	730
Inventories	(1,481)	(148)
Trade and other payables	1,022	(7,054)
Changes in non-cash working capital balances	7,675	(4,041)
Related to:		
Operating activities	7,683	(3,859)
Investing activities	(8)	(182)
	7,675	(4,041)