

**MUSKRAT FALLS CORPORATION
CONDENSED INTERIM FINANCIAL STATEMENTS**

June 30, 2025

(Unaudited)

MUSKRAT FALLS CORPORATION
STATEMENT OF FINANCIAL POSITION
(Uaudited)

As at (thousands of Canadian dollars)	Notes	June 30 2025	December 31 2024
ASSETS			
Current assets			
Restricted cash		735,091	772,850
Trade and other receivables		20,169	27,990
Short-term investments	4	35,873	35,550
Current portion of contract asset	5	303,087	325,315
Other current assets		6,028	4,773
Total current assets		1,100,248	1,166,478
Non-current assets			
Property, plant and equipment	3	6,232,659	6,276,292
Investments	4	112,137	130,074
Contract asset	5	743,880	400,520
Other long-term asset	14	3,520	3,344
Total assets		8,192,444	7,976,708
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	6	35,132	72,646
Current portion of long-term debt	7	35,873	35,550
Current portion of long-term payables	8	47,233	45,527
Total current liabilities		118,238	153,723
Non-current liabilities			
Long-term debt	7	4,341,390	4,359,369
Long-term payables	8	337,663	301,190
Total liabilities		4,797,291	4,814,282
Shareholder's equity			
Share capital		1,801,807	1,801,807
Shareholder contributions		1,178,553	1,178,553
Reserves		(37,701)	(39,152)
Retained earnings		452,494	221,218
Total equity		3,395,153	3,162,426
Total liabilities and equity		8,192,444	7,976,708

Commitments and contingencies (Note 15)

See accompanying notes

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

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Six months ended	
		2025	2024	2025	2024
Revenue	14	150,223	169,976	510,213	436,864
Total revenue		150,223	169,976	510,213	436,864
Power purchased	14	-	175	-	1,241
Operating costs	10	10,570	6,020	20,874	11,588
Transmission expense	14	28,660	28,295	57,230	56,809
Depreciation	3	22,454	22,424	44,908	44,847
Net finance expense	11	29,991	25,475	59,154	51,401
Other expense	12	4,491	10,062	6,245	16,738
Total expenses		96,166	92,451	188,411	182,624
Profit for the period		54,057	77,525	321,802	254,240
Other comprehensive income					
Total items that may or have been reclassified to profit:					
Reclassification adjustment related to:					
Cash flow hedges recognized in profit		724	744	1,451	1,493
Other comprehensive income for the period		724	744	1,451	1,493
Total comprehensive income for the period		54,781	78,269	323,253	255,733

See accompanying notes

MUSKRAT FALLS CORPORATION
STATEMENT OF CHANGES IN EQUITY
(Uaudited)

<i>(thousands of Canadian dollars)</i>	Notes	Share Capital	Shareholder Contributions	Reserves	Retained earnings	Total
Balance at January 1, 2025		1,801,807	1,178,553	(39,152)	221,218	3,162,426
Profit for the period		-	-	-	321,802	321,802
Other comprehensive income		-	-	1,451	-	1,451
Total comprehensive income for the period		-	-	1,451	321,802	323,253
Dividends	9	-	-	-	(42,768)	(42,768)
Related party transactions	14(b)	-	-	-	(47,758)	(47,758)
Balance at June 30, 2025		1,801,807	1,178,553	(37,701)	452,494	3,395,153
 Balance at January 1, 2024		1,801,807	1,177,703	(42,116)	67,728	3,005,122
Profit for the period		-	-	-	254,240	254,240
Other comprehensive income		-	-	1,493	-	1,493
Total comprehensive income for the period		-	-	1,493	254,240	255,733
Shareholder contributions	14(e)	-	1,241	-	-	1,241
Dividends	9	-	-	-	(37,696)	(37,696)
Related party transactions	14(b)	-	-	-	(64,382)	(64,382)
Balance at June 30, 2024		1,801,807	1,178,944	(40,623)	219,890	3,160,018

See accompanying notes

MUSKRAT FALLS CORPORATION
STATEMENT OF CASH FLOWS
(Unaudited)

For the period ended June 30 (thousands of Canadian dollars)	Notes	Three months ended		Six months ended	
		2025	2024	2025	2024
Operating activities					
Profit for the period		54,057	77,525	321,802	254,240
Adjustments to reconcile profit to cash (used in) provided from operating activities:					
Depreciation	3	22,454	22,424	44,908	44,847
Reserves amortized to profit		724	744	1,451	1,493
Revenue	14(b)	(18,470)	(26,540)	(47,758)	(64,382)
Power purchased	14	-	175	-	1,241
Loss on disposal of property, plant and equipment		-	2,542	-	2,542
Finance income	11	(7,567)	(12,246)	(15,809)	(24,190)
Finance expense	11	37,558	37,721	74,963	75,591
		88,756	102,345	379,557	291,382
Changes in non-cash working capital balances	16	(39,945)	(8,897)	(32,262)	(12,757)
Increase in long-term payables		15,090	15,014	38,179	35,306
Increase in contract asset		(34,311)	(28,137)	(321,132)	(192,917)
Increase in other long-term asset		-	-	(176)	-
Interest received		7,961	12,506	16,642	24,410
Interest paid		(74,548)	(74,847)	(75,134)	(75,662)
Net cash (used in) provided from operating activities		(36,997)	17,984	5,674	69,762
Investing activities					
Redemption of investments		17,614	17,320	17,614	17,320
Additions to property, plant and equipment	3	(1,221)	(714)	(1,275)	(1,228)
Changes in non-cash working capital balances	16	618	293	610	111
Net cash provided from investing activities		17,011	16,899	16,949	16,203
Financing activities					
Change in restricted cash		55,956	1,323	37,759	(30,949)
Repayment of long-term debt		(17,614)	(17,320)	(17,614)	(17,320)
Dividends	9	(18,356)	(18,886)	(42,768)	(37,696)
Net cash provided from (used in) financing activities		19,986	(34,883)	(22,623)	(85,965)
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 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 August 14, 2025.

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, 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	-	-	1,275	1,275
Balance at June 30, 2025	6,405,240	219,583	3,728	6,628,551
 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	44,497	411	-	44,908
Balance at June 30, 2025	200,169	195,723	-	395,892
 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 June 30, 2025	6,205,071	23,860	3,728	6,232,659

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	June 30 2025	December 31 2024
Amortizing Fixed Rate Deposit Notes with interest paid at a rate of 3.75% per annum	2025-2029	148,010	165,624
Less: redemptions to be received within one year		(35,873)	(35,550)
		112,137	130,074

5. CONTRACT ASSET

<i>As at (thousands of Canadian dollars)</i>	June 30 2025	December 31 2024
Contract asset, beginning of the period	725,835	451,296
Revenue recognized	493,695	549,898
Payments	(172,563)	(275,359)
Contract asset, end of the period	1,046,967	725,835
Less: current portion	(303,087)	(325,315)
	743,880	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.

MUSKRAT FALLS CORPORATION

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

6. TRADE AND OTHER PAYABLES

<i>As at (thousands of Canadian dollars)</i>	<i>Note</i>	June 30	December 31
		2025	2024
Accrued interest		12,276	12,301
Due to related parties	14	17,561	54,032
Trade payables and accruals		5,295	6,313
		35,132	72,646

7. 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>	<i>Face Value</i>	<i>Coupon Rate %</i>	<i>Year of Issue</i>	<i>Year of Maturity</i>	June 30	December 31
					2025	2024
Tranche A	542,287	3.63	2013	2029	542,337	542,343
Tranche B	563,144	3.83	2013	2037	563,190	563,192
Tranche C	1,063,717	3.86	2013	2048	1,063,860	1,063,863
Tranche 10	-	1.75	2017	2025	-	17,613
Tranche 11-20	187,117	1.84-2.37	2017	2025-2030	187,129	187,132
Tranche 21-30	210,737	2.41-2.64	2017	2030-2035	210,792	210,796
Tranche 31-40	240,429	2.66-2.80	2017	2035-2040	240,593	240,600
Tranche 41-50	276,180	2.81-2.86	2017	2040-2045	276,392	276,398
Tranche 51-60	317,934	2.84-2.86	2017	2045-2050	318,267	318,275
Tranche 61-64	140,205	2.85	2017	2050-2052	140,415	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	4,376,038				4,377,263	4,394,919
Less: maturities of debt within one year					(35,873)	(35,550)
					4,341,390	4,359,369

8. LONG-TERM PAYABLES

<i>As at (thousands of Canadian dollars)</i>		June 30	December 31
		2025	2024
Long-term payables, beginning of the period		346,717	280,667
Additions		57,230	114,264
Payments		(19,051)	(48,214)
Long-term payables, end of the period		384,896	346,717
Less: current portion		(47,233)	(45,527)
		337,663	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.

MUSKRAT FALLS CORPORATION

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

9. SHAREHOLDER'S EQUITY

Dividends

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Three months ended		Six months ended	
	2025	2024	2025	2024
Declared and paid during the period				
Preferred dividend for current period (3% coupon rate)	13,477	13,477	26,805	26,953
Common dividend for current period	4,879	5,409	15,963	10,743
	18,356	18,886	42,768	37,696

10. OPERATING COSTS

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Three months ended		Six months ended	
	2025	2024	2025	2024
Impacts and Benefits agreement and amendment	3,443	-	6,886	-
Maintenance and materials	2,153	2,359	4,415	4,155
Salaries and benefits	2,199	1,529	4,091	3,052
Professional services	1,115	646	2,254	1,246
Insurance	662	720	1,323	1,438
Other operating costs	998	766	1,905	1,697
	10,570	6,020	20,874	11,588

11. NET FINANCE EXPENSE

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Three months ended		Six months ended	
	2025	2024	2025	2024
Finance income				
Interest on restricted cash	6,065	10,414	12,756	20,464
Interest on investments	1,482	1,810	3,011	3,683
Other interest	20	22	42	43
	7,567	12,246	15,809	24,190
Finance expense				
Interest and fees on long-term debt	36,879	37,027	73,783	74,076
Other interest	679	694	1,180	1,515
	37,558	37,721	74,963	75,591
Net finance expense	29,991	25,475	59,154	51,401

12. OTHER EXPENSE

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Three months ended		Six months ended	
	2025	2024	2025	2024
Rental and royalty	3,737	4,747	7,751	9,204
Loss on disposal of assets	-	3,099	-	3,099
Other	754	2,216	(1,506)	4,435
Other expense	4,491	10,062	6,245	16,738

MUSKRAT FALLS CORPORATION

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

13. FINANCIAL INSTRUMENTS

Fair Value

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

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 June 30, 2025 and the year ended December 31, 2024.

As at June 30, 2025 and December 31, 2024, the Company did not have any Level 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
				June 30, 2025	December 31, 2024
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Investments, including short-term					
	2	148,010	150,519	165,624	166,992
Financial liabilities					
Long-term debt, including amount due within one year					
	2	4,377,263	3,987,293	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.

MUSKRAT FALLS CORPORATION

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

14. 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)

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

As at (thousands of Canadian dollars)		June 30 2025	December 31 2024
Trade and other receivables:			
Parent		11,870	18,692
Other related parties		5,448	5,357
Contract asset (including current portion):			
Parent	Note 5	1,046,967	725,835
Other long-term asset:			
Other related parties	Note 15(d)	3,520	3,344
Trade and other payables:			
Parent		9,858	38,573
The Province	(a)	7,701	15,250
Other related parties		2	209
Long-term payables (including current portion):			
Other related parties	Note 8	384,896	346,717
 <i>For the period ended June 30 (thousands of Canadian dollars)</i>			
Three months ended			
	2025	2024	2025
Revenue:			
Parent	(b)(c)	131,184	129,465
Other related parties	(d)(g)	19,039	40,511
Power purchased:			
Parent	(e)	-	175
Operating costs:			
Parent		2,325	1,848
Other related parties		30	30
Transmission expense:			
Other related parties	(f)	28,660	28,295
Other expense:			
The Province	(a)	3,737	4,747
			7,751
			9,204

MUSKRAT FALLS CORPORATION

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

- (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 \$47.8 million (June 30, 2024 - \$64.4 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.
- (g) Muskrat Falls earned revenue from Churchill Falls related to an Energy Purchase Agreement for the sale of banked energy.

15. 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 June 30, 2025 is \$625 million (December 31, 2024 - \$754 million) within one year and \$36,148 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 June 30, 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 \$0.6 million as at June 30, 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.

MUSKRAT FALLS CORPORATION**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)****16. SUPPLEMENTARY CASH FLOW INFORMATION**

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Three months ended		Six months ended	
	2025	2024	2025	2024
Trade and other receivables	(369)	(8,930)	7,092	(6,498)
Prepayments	673	731	1,346	1,460
Inventories	(1,120)	402	(2,601)	254
Trade and other payables	(38,511)	(807)	(37,489)	(7,862)
Changes in non-cash working capital balances	(39,327)	(8,604)	(31,652)	(12,646)

Related to:				
Operating activities	(39,945)	(8,897)	(32,262)	(12,757)
Investing activities	618	293	610	111
	(39,327)	(8,604)	(31,652)	(12,646)