

MUSKRAT FALLS CORPORATION
FINANCIAL STATEMENTS
December 31, 2025

Independent Auditor's Report

To the Shareholder of
Muskrat Falls Corporation

Opinion

We have audited the financial statements of Muskrat Falls Corporation (the "Company"), which comprise the statement of financial position as at December 31, 2025, and the statements of profit and comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including material accounting policy information (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2025, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IASB").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards as issued by the IASB, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte LLP

Chartered Professional Accountants
March 17, 2026


MUSKRAT FALLS CORPORATION
STATEMENT OF FINANCIAL POSITION

<i>As at December 31 (thousands of Canadian dollars)</i>	Notes	2025	2024
ASSETS			
Current assets			
Restricted cash		759,261	772,850
Trade and other receivables	5	29,663	27,990
Short-term investments	7	36,227	35,550
Current portion of contract asset	8	324,523	325,315
Other current assets		7,303	4,773
Total current assets		1,156,977	1,166,478
Non-current assets			
Property, plant and equipment	6	6,189,724	6,276,292
Investments	7	93,847	130,074
Contract asset	8	823,673	400,520
Other long-term asset	17	3,520	3,344
Total assets		8,267,741	7,976,708
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	9	46,517	72,646
Current portion of long-term debt	10	36,227	35,550
Current portion of long-term payables	11	59,502	45,527
Total current liabilities		142,246	153,723
Non-current liabilities			
Long-term debt	10	4,323,058	4,359,369
Long-term payables	11	357,224	301,190
Total liabilities		4,822,528	4,814,282
Shareholder's equity			
Share capital	12	1,801,807	1,801,807
Shareholder contributions		1,178,553	1,178,553
Reserves		(36,270)	(39,152)
Retained earnings		501,123	221,218
Total equity		3,445,213	3,162,426
Total liabilities and equity		8,267,741	7,976,708


Commitments and contingencies (Note 18)

See accompanying notes

On behalf of the Board:



 DIRECTOR



 DIRECTOR

MUSKRAT FALLS CORPORATION
STATEMENT OF PROFIT AND COMPREHENSIVE INCOME

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	Notes	2025	2024
Revenue	17	832,613	739,463
Total revenue		832,613	739,463
Operating costs	13	40,378	61,157
Transmission expense	17	115,204	114,264
Depreciation	6	89,858	89,722
Net finance expense	14	119,258	104,874
Other expense	15	15,573	21,449
Total expenses		380,271	391,466
Profit for the year		452,342	347,997
Other comprehensive income			
Total items that may or have been reclassified to profit:			
Reclassification adjustment related to:			
Cash flow hedges recognized in profit	15	2,882	2,964
Other comprehensive income for the year		2,882	2,964
Total comprehensive income for the year		455,224	350,961

See accompanying notes

MUSKRAT FALLS CORPORATION
STATEMENT OF CHANGES IN EQUITY

(thousands of Canadian dollars)

	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 year		-	-	-	452,342	452,342
Other comprehensive income		-	-	2,882	-	2,882
Total comprehensive income for the year		-	-	2,882	452,342	455,224
Dividends	12	-	-	-	(78,852)	(78,852)
Non-cash distribution to parent	17(b)	-	-	-	(93,585)	(93,585)
Balance at December 31, 2025		1,801,807	1,178,553	(36,270)	501,123	3,445,213
Balance at January 1, 2024		1,801,807	1,177,703	(42,116)	67,728	3,005,122
Profit for the year		-	-	-	347,997	347,997
Other comprehensive income		-	-	2,964	-	2,964
Total comprehensive income for the year		-	-	2,964	347,997	350,961
Shareholder contributions	17(e)	-	850	-	-	850
Dividends	12	-	-	-	(84,645)	(84,645)
Non-cash distribution to parent	17(b)	-	-	-	(109,862)	(109,862)
Balance at December 31, 2024		1,801,807	1,178,553	(39,152)	221,218	3,162,426

See accompanying notes

MUSKRAT FALLS CORPORATION STATEMENT OF CASH FLOWS

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	Notes	2025	2024
Operating activities			
Profit for the year		452,342	347,997
Adjustments to reconcile profit to cash provided from operating activities:			
Depreciation	6	89,858	89,722
Reserves amortized to profit		2,882	2,964
Non-cash distribution to parent	17(b)	(93,585)	(109,862)
Power purchased	17(e)	-	850
Loss on disposal of property, plant and equipment	6	-	2,052
Finance income	14	(29,889)	(45,827)
Finance expense	14	149,147	150,701
		570,755	438,597
Changes in non-cash working capital balances	20	(31,313)	6,590
Increase in long-term payables		70,009	66,050
Increase in contract asset		(422,361)	(274,539)
Increase in other long-term asset		(176)	(64)
Interest received		30,988	46,854
Interest paid		(149,615)	(151,005)
Net cash provided from operating activities		68,287	132,483
Investing activities			
Redemption of investments		35,550	34,933
Additions to property, plant and equipment	6	(3,290)	(2,654)
Changes in non-cash working capital balances	20	266	(378)
Net cash provided from investing activities		32,526	31,901
Financing activities			
Change in restricted cash		13,589	(44,806)
Repayment of long-term debt		(35,550)	(34,933)
Dividends	12	(78,852)	(84,645)
Net cash used in financing activities		(100,813)	(164,384)
Net increase (decrease) in cash		-	-
Cash, beginning of the year		-	-
Cash, end of the year		-	-

See accompanying notes

MUSKRAT FALLS CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

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

2.1 Statement of Compliance and Basis of Measurement

These annual audited financial statements (financial statements) have been prepared in accordance with IFRS® Accounting Standards, as issued by the International Accounting Standards Board (IASB).

These financial statements have been prepared on a historical cost basis and are presented in Canadian Dollars (CAD) with all values rounded to the nearest thousand, except when otherwise noted. The financial statements were approved by Muskrat Falls' Board of Directors on March 12, 2026.

2.2 Basis of Consolidation

The financial statements include only the financial statements of Muskrat Falls.

Muskrat Falls includes the financial statements of investees (including structured entities) only when it has control as defined in *IFRS 10 – Consolidated Financial Statements*. In accordance with IFRS 10, control is achieved when Muskrat Falls:

- has power over the relevant activities of the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect those returns.

The Muskrat Falls/Labrador Transmission Assets Funding Trust (MF/LTA Funding Trust) was formed under the laws of the Province and the federal laws of Canada on November 4, 2013 for the purpose of issuing long-term debentures to the public, which are guaranteed by the Government of Canada (Canada), and to on-lend the proceeds to Muskrat Falls and Labrador Transco. The funds provide financing for the MF Plant and the LTA as part of the Lower Churchill Project.

Based on the criteria outlined in IFRS 10, Muskrat Falls has determined that it does not have control of the MF/LTA Funding Trust and as such has not included the accounts of the MF/LTA Funding Trust in these financial statements.

MUSKRAT FALLS CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

2.3 Restricted Cash

Restricted cash consists of cash held on deposit with a Schedule 1 Canadian Chartered Bank and administered by the Collateral Agent for the sole purpose of funding construction, operating, maintenance, sustaining and financing costs related to the MF Plant, including reserve accounts required under the MF/LTA Project Finance Agreement (MF/LTA PFA).

2.4 Short-term Investments

Investments with maturities greater than three months and less than twelve months are considered short-term investments.

2.5 Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes expenditures incurred in acquiring inventories and bringing them to their existing condition and location. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

2.6 Property, Plant and Equipment

Items of property, plant and equipment are recognized at cost less accumulated depreciation and accumulated impairment losses. Cost includes materials, labour, contracted services, professional fees and, for qualifying assets, borrowing costs capitalized in accordance with Muskrat Falls' accounting policy outlined in Note 2.7. Costs capitalized with the related asset include all those costs directly attributable to bringing the asset into operation.

When significant parts of property, plant and equipment are required to be replaced at intervals, Muskrat Falls recognizes such parts as individual assets with specific useful lives and depreciation rates. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the asset as a replacement if the recognition criteria are satisfied. All other repairs and maintenance costs are recognized in profit or loss as incurred.

Depreciation commences when the assets are ready for their intended use. Residual values and useful lives are reviewed at the end of each year and adjusted prospectively, if appropriate. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Hydroelectric generation plant	15 to 100 years
Service facilities and other	5 to 100 years

Hydroelectric generation plant includes the powerhouse, turbines and generators, governors and exciters, and auxiliary systems, as well as water conveying and control structures, including dams, tailraces, spillway, penstocks, draft tube and intake structures.

Service facilities and other include roads, telecontrol, buildings, vehicles, heavy equipment, furniture, and tools and equipment.

The carrying amount of a replaced asset is derecognized when replaced. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recorded in other expense.

2.7 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in the Statement of Profit and Comprehensive Income in the period in which they are incurred.

2.8 Impairment of Non-Financial Assets

Property, plant and equipment and other non-financial assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where it is not possible to estimate the recoverable amount of an individual asset, Muskrat Falls estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs. The recoverable amount is the higher of fair value less costs of disposal and value in use. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from non-financial assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount and an impairment loss is recognized immediately in the Statement of Profit and Comprehensive Income.

2.9 Provisions

A provision is a liability of uncertain timing or amount. A provision is recognized if the Company has a present legal obligation or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. The provision is measured at the present value of the best estimate of the expenditures expected to be required to settle the obligation using a discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. Provisions are re-measured at each Statement of Financial Position date using the current discount rate.

2.10 Revenue Recognition

Muskrat Falls recognizes revenue from contracts with customers related to the sale of electricity. Revenue is measured based on the consideration specified in the contract with a customer, forecasted over the term of the contract and constrained where applicable. Sales are at rates under the terms of the applicable contracts, or at market rates.

Revenue is recognized when Muskrat Falls satisfies its performance obligations and is determined when it transfers control of a product or service to a customer. Variable components that meet the allocation exemption are recognized as incurred. A contract asset/liability is recognized when the timing of satisfying the performance obligations and the timing of contractual payments are not aligned.

2.11 Income Taxes

The Company is exempt from paying income taxes under Paragraph 149(1) (d.2) of the Income Tax Act.

2.12 Financial Instruments

Classification and Initial Measurement

Financial assets and financial liabilities are recognized in the Statement of Financial Position when Muskrat Falls becomes a party to the contractual provisions of the instrument and are initially measured at fair value.

Financial assets are classified at amortized cost, fair value through other comprehensive income (FVTOCI), fair value through profit or loss (FVTPL) or as derivatives designated as hedging instruments in an effective hedge. Financial liabilities are classified at FVTPL, amortized cost or as derivatives designated as hedging instruments in an effective hedge. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial Assets at Amortized Cost

Financial assets with contractual cash flows arising on specified dates, consisting solely of principal and interest, and that are held within a business model whose objective is to collect the contractual cash flows are subsequently measured at amortized cost using the effective interest rate method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

MUSKRAT FALLS CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

Muskrat Falls' financial assets at amortized cost include restricted cash, trade and other receivables and investments (including short-term).

Financial Liabilities at Amortized Cost

Muskrat Falls subsequently measures all financial liabilities at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the liability is derecognized.

Muskrat Falls' financial liabilities at amortized cost include trade and other payables, long-term debt and long-term payables.

Derecognition of Financial Instruments

Muskrat Falls derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

Muskrat Falls derecognizes financial liabilities when, and only when, its obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Impairment of Financial Assets

Muskrat Falls recognizes a loss allowance for expected credit losses (ECL) on investments in debt instruments that are measured at amortized cost. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

Muskrat Falls always recognizes lifetime ECL for trade and other receivables. The ECL on these financial assets are estimated based on Muskrat Falls' historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. Muskrat Falls also records 12-month ECL for those financial assets which have low credit risk and where the low credit risk exemption has been applied. The class of financial assets that has been identified to have low credit risk is restricted cash.

For all other financial instruments, Muskrat Falls recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, Muskrat Falls measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Hedges

Muskrat Falls may choose to designate derivative instruments as hedges and apply hedge accounting if there is an economic relationship between the hedged item and the hedging instrument; the effect of credit risk does not dominate the value changes that result from that economic relationship; and the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that Muskrat Falls actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. Muskrat Falls formally documents all hedges and the related risk management objectives at the inception of the hedge. Derivative instruments that have been designated and qualify for hedge accounting are classified as either cash flow or fair value hedges.

MUSKRAT FALLS CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

The effective portion of the gain or loss on a cash flow hedging instrument is recognized directly in other comprehensive income, while any ineffective portion is recognized immediately in the Statement of Profit and Comprehensive Income for the period in other expense. Amounts recognized in other comprehensive income are transferred to the Statement of Profit and Comprehensive Income for the period when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs.

Muskrat Falls does not hold any fair value hedges.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the financial statements in conformity with IFRS Accounting Standards requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ materially from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is reviewed if the revision affects only that period or future periods.

3.1 Use of Judgments

(i) Asset Impairment and Reversals

Muskrat Falls applies judgment in evaluating impairment and impairment reversal indicators based on various internal and external factors.

The recoverable amount of a CGU or asset is determined based on the higher of fair value less costs of disposal and its value in use. Management uses judgment in selecting discount rates and considering the occurrence of future events when determining the recoverable amount. Changes in these factors will affect the recoverable amount of CGUs and assets, which may result in a material adjustment to their carrying value.

(ii) Property, Plant and Equipment

Muskrat Falls' accounting policy relating to property, plant and equipment is described in Note 2.6. In applying this policy, judgment is used in determining whether certain costs are additions to the carrying amount of the property, plant and equipment as opposed to repairs and maintenance. If an asset has been developed, judgment is required to identify the point at which the asset is capable of being used as intended and to identify the directly attributable borrowing costs to be included in the carrying value of the development asset. Judgment is also used in determining the appropriate componentization structure for Muskrat Falls' property, plant and equipment.

(iii) Revenue

Management uses judgment in estimating the variable consideration in a contract, such as future sustaining capital costs, and assessing whether a variable component is constrained. Management also uses judgment in allocating amounts to performance obligations and determining the timing of satisfaction of performance obligations. Revenue related to electricity sales is allocated between energy and capacity components based on observable evidence of how efficiently island rate payers use the hydroelectric system. Energy is recognized as units are delivered whereas capacity is recognized evenly over the time elapse of the term.

(iv) Determination of CGUs

Muskrat Falls' accounting policy relating to impairment of non-financial assets is described in Note 2.8. In applying this policy, Muskrat Falls groups assets into the smallest identifiable groups for which cash flows are largely independent of the cash flows from other assets or groups of assets. Judgment is used in determining the level at which cash flows are largely independent of other assets or groups of assets.

(v) Consolidation

Management applies its judgment when determining whether to consolidate structured entities in accordance with the criteria outlined in IFRS 10.

3.2 Use of Estimates

(i) Property, Plant and Equipment

Amounts recorded for depreciation are based on the useful lives of the Company's assets. The useful lives of property, plant and equipment are verified by independent specialists and reviewed annually by the Company. The useful lives are Management's best estimate of the service lives of these assets. Changes to these lives could materially affect the amount of depreciation recorded.

4. CURRENT AND FUTURE CHANGES IN ACCOUNTING POLICIES

The following is a list of applicable standards/amendments that have been issued and are effective for accounting periods commencing on or after January 1, 2025, as specified.

- *Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosure - Amendments to the Classification and Measurement of Financial Instruments*¹
- *Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosure - Contracts Referencing Nature-dependent Electricity*¹
- *IFRS 18 – Presentation and Disclosures in Financial Statements*²

¹ Effective for annual periods beginning on or after January 1, 2026, with earlier application permitted.

² Effective for annual periods beginning on or after January 1, 2027, with earlier application permitted.

4.1 Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosure - Amendments to the Classification and Measurement of Financial Instruments

The IASB issued amendments to IFRS 9 and IFRS 7 to provide clarification and enhancement on classification and measurement of financial instruments. The amendments permit an entity to deem a financial liability or part of a financial liability that is settled using an electronic payment system to be discharged and derecognized before the settlement date if specified criteria are met. The amendments also provide guidance on how an entity should assess whether contractual cash flows of a financial asset are consistent with a basic lending arrangement, enhance the description of the term 'non-recourse', and clarify the characteristics of contractually linked instruments that distinguish them from other transactions. Furthermore, the amendments add new disclosure requirements for investments in equity instruments designated at FVTOCI and contractual terms that could change the timing or amount of contractual cash flows. The amendments are required to be applied retrospectively. The application of these amendments will not have a material impact on Muskrat Falls' financial statements.

4.2 Amendments to IFRS 9 - Financial Instruments and IFRS 7 - Financial Instruments: Disclosure – Contracts Referencing Nature-dependent Electricity

The IASB issued amendments to IFRS 9 and IFRS 7 to provide a reasonable basis for an entity to determine the required accounting for contracts referencing nature-dependent electricity which are often structured as power purchase agreements. The amendments include clarifying the application of the 'own-use' requirements, permitting hedge accounting if these contracts are used as hedging instruments, and adding new disclosure requirements to enable investors to understand the effect of these contracts on a company's financial performance and cash flows. The amendments are applied retrospectively upon adoption. The application of these amendments will not have a material impact on Muskrat Falls' financial statements.

4.3 IFRS 18 – Presentation and Disclosures in Financial Statements

IFRS 18 replaces IAS 1, carrying forward many of the requirements of IAS 1 unchanged and introducing new requirements to present specified categories and defined subtotals in the statement of profit or loss. As well, entities will be required to provide disclosures on management-defined performance measures in the notes to the financial statements and improve aggregation and disaggregation. In addition, some IAS 1 paragraphs have been moved to IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors* and IFRS 7. Furthermore, the IASB has made minor amendments to IAS 7 – *Statement of Cash Flows*.

MUSKRAT FALLS CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

An entity is required to apply IFRS 18 for annual reporting periods beginning on or after January 1, 2027, with earlier application permitted. The amendments to IAS 7, as well as the revised IAS 8 and IFRS 7, become effective when an entity applies IFRS 18. IFRS 18 requires retrospective application with specific transition provisions. Management is currently assessing the impact on Muskrat Falls' financial statements and expects adoption of the standard to result in significant changes to presentation and disclosure, especially as it relates to the presentation of the Statement of Profit and Comprehensive Income.

5. TRADE AND OTHER RECEIVABLES

<i>As at December 31 (thousands of Canadian dollars)</i>	Note	2025	2024
Due from related parties	17	26,989	24,049
Interest receivable		2,161	3,129
Other receivables		513	812
		29,663	27,990

<i>As at December 31 (thousands of Canadian dollars)</i>	2025	2024
0-60 days	15,469	10,681
60+ days	14,194	17,309
	29,663	27,990

6. 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	1,025	-	2,265	3,290
Transfers	670	1,338	(2,008)	-
Balance at December 31, 2025	6,406,935	220,921	2,710	6,630,566
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	89,031	827	-	89,858
Balance at December 31, 2025	244,703	196,139	-	440,842
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 December 31, 2025	6,162,232	24,782	2,710	6,189,724

MUSKRAT FALLS CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

7. INVESTMENTS

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

<i>As at December 31 (thousands of Canadian dollars)</i>	Year of Maturity	2025	2024
Amortizing Fixed Rate Deposit Notes with interest paid at a rate of 3.75% per annum.	2026- 2029	130,074	165,624
Less: redemptions to be received within one year		(36,227)	(35,550)
		93,847	130,074

On March 31, 2022, the Company, jointly with Labrador Transco, purchased structured deposit notes using the proceeds from issued long-term debt. The investments are restricted in nature and subject to the provisions contained within the MF/LTA PFA. Muskrat Falls recognizes 83.43% of these investments.

8. CONTRACT ASSET

<i>As at December 31 (thousands of Canadian dollars)</i>	2025	2024
Contract asset, beginning of the year	725,835	451,296
Revenue recognized	742,049	549,898
Payments	(319,688)	(275,359)
Contract asset, end of the year	1,148,196	725,835
Less: current portion	(324,523)	(325,315)
	823,673	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.

9. TRADE AND OTHER PAYABLES

<i>As at December 31 (thousands of Canadian dollars)</i>	Note	2025	2024
Due to related parties	17	30,372	54,032
Accrued interest		12,248	12,301
Trade payables and accruals		3,897	6,313
		46,517	72,646

MUSKRAT FALLS CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

10. LONG-TERM DEBT

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

<i>As at December 31 (thousands of Canadian dollars)</i>	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	2025	2024
Tranche A	542,287	3.63	2013	2029	542,330	542,343
Tranche B	563,144	3.83	2013	2037	563,188	563,192
Tranche C	1,063,717	3.86	2013	2048	1,063,857	1,063,863
Tranche 10	-	1.75	2017	2025	-	17,613
Tranche 11-20	169,180	1.90-2.37	2017	2026-2030	169,190	187,132
Tranche 21-30	210,737	2.41-2.64	2017	2030-2035	210,788	210,796
Tranche 31-40	240,429	2.66-2.80	2017	2035-2040	240,587	240,600
Tranche 41-50	276,180	2.81-2.86	2017	2040-2045	276,386	276,398
Tranche 51-60	317,934	2.84-2.86	2017	2045-2050	318,260	318,275
Tranche 61-64	140,205	2.85	2017	2050-2052	140,411	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	4,358,101				4,359,285	4,394,919
Less: maturities of debt within one year					(36,227)	(35,550)
					4,323,058	4,359,369

Musktrat Falls, MF/LTA Funding Trust, Labrador Transco and the Collateral Agent have entered into the MF/LTA PFA. Under the terms and conditions of the MF/LTA PFA, the MF/LTA Funding Trust provided three credit facilities totaling \$5.5 billion. Musktrat Falls and Labrador Transco are jointly and severally liable for the full amount of the credit facilities. Musktrat Falls' recognizes 83.43% of the debt, which is based on its cumulative portion of actual debt drawn for the construction of the MF Plant. The financing of the MF/LTA Funding Trust benefits from a direct, absolute, unconditional and irrevocable guarantee from Canada, and thereby carries its full faith and credit (AAA rating or equivalent).

The role of the Collateral Agent is to act on behalf of the lending parties, including the MF/LTA Funding Trust and Canada. The Collateral Agent oversees the lending and security arrangements, the various project accounts and the compliance with covenants. Sinking funds are required to be set up for the Tranche B, C and U debentures and are to be held in a sinking fund account under the control of the Collateral Agent with payments beginning in 2029.

11. LONG-TERM PAYABLES

<i>As at December 31 (thousands of Canadian dollars)</i>	2025	2024
Long-term payables, beginning of the year	346,717	280,667
Additions	115,204	114,264
Payments	(45,195)	(48,214)
Long-term payables, end of the year	416,726	346,717
Less: current portion	(59,502)	(45,527)
	357,224	301,190

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

MUSKRAT FALLS CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

12. SHAREHOLDER'S EQUITY

12.1 Share Capital

<i>As at December 31 (thousands of Canadian dollars)</i>	2025	2024
Class A preferred shares without nominal or par value		
Authorized – unlimited		
Issued - fully paid and outstanding - 1,801,806,139	1,801,806	1,801,806
Class A common shares without nominal or par value		
Authorized – unlimited		
Issued - fully paid and outstanding - 1,000	1	1
	1,801,807	1,801,807

12.2 Dividends

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	2025	2024
Declared and paid during the year		
Preferred dividend for current year (3% coupon rate)	54,054	54,202
Common dividend for current year	24,798	30,443
	78,852	84,645

13. OPERATING COSTS

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	2025	2024
Impacts and Benefits agreement and amendment	13,936	35,260
Salaries and benefits	8,435	6,906
Maintenance and materials	8,057	9,104
Other operating costs	3,854	3,442
Professional services	3,539	3,684
Insurance	2,557	2,761
	40,378	61,157

14. NET FINANCE EXPENSE

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	2025	2024
Finance income		
Interest on restricted cash	24,068	38,667
Interest on investments	5,737	7,075
Other interest	84	85
	29,889	45,827
Finance expense		
Interest and fees on long-term debt	147,419	148,018
Other interest	1,728	2,683
	149,147	150,701
Net finance expense	119,258	104,874

MUSKRAT FALLS CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

15. OTHER EXPENSE

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	Note	2025	2024
Rental and royalty	17	13,995	15,255
Cash flow hedge amortization		2,882	2,964
Other		(1,304)	3,230
		15,573	21,449

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

16.1 Fair Value

The estimated fair values of financial instruments as at December 31, 2025 and 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 year. There were no transfers between Level 1, 2 and 3 fair value measurements during the years ended December 31, 2025 and 2024.

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

MUSKRAT FALLS CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		December 31, 2025		December 31, 2024	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Investments, including short-term	2	130,074	132,254	165,624	166,992
Financial liabilities					
Long-term debt, including amount due within one year	2	4,359,285	3,860,942	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.

16.2 Risk Management

The Company is exposed to certain credit, liquidity and market risks through its operating, financing and investing activities. Financial risk is managed in accordance with a Board-approved policy, which outlines the objectives and strategies for the management of financial risk, including the use of derivative contracts. Permitted financial risk management strategies are aimed at minimizing the volatility of the Company's expected future cash flows.

Credit Risk

The Company's expected future cash flows are exposed to credit risk through its operating, financing and investing activities, based on the risk of non-performance by counterparties to its financial instruments. The degree of exposure to credit risk on restricted cash, investments, trade and other receivables and related party receivable is determined by the financial capacity and stability of those counterparties. The maximum exposure to credit risk on these financial instruments is represented by their carrying values on the Statement of Financial Position at the reporting date. Credit risk on restricted cash and investments is minimal, as the Company's deposits are held by a Canadian Schedule 1 Chartered Bank with a rating of A+ (Standard and Poor's). Credit risk on trade and other receivables is also minimal as the Company does not have any material amounts that are past due and uncollectable.

Liquidity Risk

The Company is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. Liquidity risk management activities are directed at ensuring cash is available to meet those obligations as they become due. Short-term liquidity is provided through restricted cash on hand and shareholder contributions. Liquidity risk for Muskrat Falls is considered to be minimal due to the reserve accounts it holds as instructed in the MF/LTA PFA as well as its commercial arrangements with Hydro which require Hydro to make payments which are absolute, unconditional and irrevocable until the financing has been paid in full.

The following are the contractual maturities of the Company's financial liabilities as at December 31, 2025:

<i>(thousands of Canadian dollars)</i>	< 1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	46,517	-	-	-	46,517
Long-term payables	59,502	100,912	168,977	87,335	416,726
Long-term debt (including sinking funds and interest)	182,978	365,999	982,761	5,325,886	6,857,624
	288,997	466,911	1,151,738	5,413,221	7,320,867

MUSKRAT FALLS CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

Market Risk

In the course of carrying out its operating, financing and investing activities, the Company is exposed to possible market price movements that could impact expected future cash flow of certain financial assets.

Interest Rates

Changes in prevailing interest rates will impact the fair value of financial assets and liabilities. Expected future cash flows from these assets are also impacted in certain circumstances. The Company is not exposed to interest rate risk on its long-term debt as all of the Company's long-term debt has fixed interest rates.

Foreign Currency and Commodity Exposure

The Company does not hold any financial instruments whose value would vary due to changes in a commodity price or whose value would materially vary due to fluctuations in foreign currency exchange rates.

17. 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 financial statements, are summarized below:

<i>As at December 31 (thousands of Canadian dollars)</i>		2025	2024
Trade and other receivables:	Note 5		
Parent		19,167	18,692
Other related parties		7,822	5,357
Contract asset (including current portion):			
Parent	Note 8	1,148,196	725,835
Other long-term asset:			
Other related parties	Note 18(d)	3,520	3,344
Trade and other payables:	Note 9		
Parent		16,428	38,573
The Province	(a)	13,944	15,250
Other related parties		-	209
Long-term payables (including current portion):			
Other related parties	Note 11	416,726	346,717

MUSKRAT FALLS CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

<i>For the year ended December 31 (thousands of Canadian dollars)</i>		2025	2024
Revenue:			
Parent	(b)(c)	781,236	665,587
Other related parties	(d)(g)	51,377	73,876
Operating costs:			
Parent		9,755	8,253
Other related parties		128	128
Transmission expense:			
Other related parties	(f)	115,204	114,264
Other expense:			
The Province	Note 15, (a)	13,995	15,255
Parent	(e)	-	850

- (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 \$93.6 million (2024 - \$109.9 million).
- (c) Muskrat Falls earned revenue from Hydro in relation to the PPA and Residual Block sales.
- (d) Muskrat Falls earned revenue from Energy Marketing in relation to the Residual Block sales.
- (e) Muskrat Falls had 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.

18. 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 for a 50 year term. Revenue allocated to the remaining performance obligation related to energy and capacity sales under the PPA as at December 31, 2025 is \$608 million (2024 - \$754 million) within one year and \$36,042 million (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 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 December 31, 2025 Muskrat Falls has the equivalent of approximately 1.1 TWh (2024 - 1.0 TWh) of energy stored in the Churchill Falls reservoir.

MUSKRAT FALLS CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

- (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 \$1.1 million as at December 31, 2025 (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.

19. CAPITAL MANAGEMENT

Capital includes share capital, shareholder contributions and long-term debt. The Company's objectives for managing capital are to maintain its ability to continue as a going concern and to ensure timely payment of its contractual obligations. Cash generated from operations will be sufficient to fund the operating, maintaining and sustaining activities of the MF Plant.

20. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	2025	2024
Trade and other receivables	(2,441)	(14,329)
Prepayments	(37)	112
Inventories	(2,493)	(2,345)
Trade and other payables	(26,076)	22,774
Changes in non-cash working capital balances	(31,047)	6,212
Related to:		
Operating activities	(31,313)	6,590
Investing activities	266	(378)
	(31,047)	6,212