

MUSKRAT FALLS CORPORATION
CONDENSED INTERIM FINANCIAL STATEMENTS
September 30, 2020
(Unaudited)

MUSKRAT FALLS CORPORATION
STATEMENT OF FINANCIAL POSITION
(Unaudited)

<i>As at (thousands of Canadian dollars)</i>	Notes	September 30 2020	December 31 2019
ASSETS			
Current assets			
Restricted cash		632,195	860,244
Advances		702	24,347
Trade and other receivables		5,011	9,241
Prepayments		37	5,128
Total current assets		637,945	898,960
Non-current assets			
Property, plant and equipment	4	5,920,011	5,657,169
Intangible assets		270	208
Total assets		6,558,226	6,556,337
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	5	122,377	156,801
Current portion of long-term debt	6	33,222	16,526
Total current liabilities		155,599	173,327
Non-current liabilities			
Long-term debt	6	3,680,997	3,678,672
Total liabilities		3,836,596	3,851,999
Shareholder's equity			
Share capital		1	1
Shareholder contributions		2,783,975	2,767,901
Reserves		(51,955)	(54,257)
Deficit		(10,391)	(9,307)
Total equity		2,721,630	2,704,338
Total liabilities and equity		6,558,226	6,556,337

Commitments and contingencies (Note 11)

See accompanying notes

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

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Nine months ended	
		2020	2019	2020	2019
Operating costs	7	467	319	1,078	723
Other (income) expense		(5)	(2)	6	(4)
Loss for the period		(462)	(317)	(1,084)	(719)
Other comprehensive income					
Total items that may or have been reclassified to profit or loss:					
Reclassification adjustment related to:					
Cash flow hedges recognized in profit or loss		767	705	2,302	2,302
Other comprehensive income for the period		767	705	2,302	2,302
Total comprehensive income for the period		305	388	1,218	1,583

See accompanying notes

MUSKRAT FALLS CORPORATION
STATEMENT OF CHANGES IN EQUITY
(Unaudited)

<i>(thousands of Canadian dollars)</i>	Notes	Share Capital	Shareholder Contributions	Reserves	Deficit	Total
Balance at January 1, 2020		1	2,767,901	(54,257)	(9,307)	2,704,338
Loss for the period		-	-	-	(1,084)	(1,084)
Other comprehensive income		-	-	2,302	-	2,302
Total comprehensive income for the period		-	-	2,302	(1,084)	1,218
Shareholder contributions	10	-	16,074	-	-	16,074
Balance at September 30, 2020		1	2,783,975	(51,955)	(10,391)	2,721,630
Balance at January 1, 2019		1	2,398,423	(57,326)	(8,038)	2,333,060
Loss for the period		-	-	-	(719)	(719)
Other comprehensive income		-	-	2,302	-	2,302
Total comprehensive income for the period		-	-	2,302	(719)	1,583
Shareholder contributions	10	-	82,608	-	-	82,608
Balance at September 30, 2019		1	2,481,031	(55,024)	(8,757)	2,417,251

See accompanying notes

MUSKRAT FALLS CORPORATION
STATEMENT OF CASH FLOWS
(Unaudited)

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Nine months ended	
		2020	2019	2020	2019
Operating activities					
Loss for the period		(462)	(317)	(1,084)	(719)
Adjustments to reconcile loss to cash provided from (used in) operating activities:					
Finance income	8	(815)	(3,832)	(6,562)	(13,521)
Finance expense	8	815	3,832	6,562	13,521
		(462)	(317)	(1,084)	(719)
Increase in prepayments		-	-	-	(494)
Changes in non-cash working capital balances	12	18	22	14	(33)
Interest received		794	3,978	6,797	13,548
Interest paid		(2)	(2)	(71,915)	(68,191)
Net cash provided from (used in) operating activities		348	3,681	(66,188)	(55,889)
Investing activities					
Additions to property, plant and equipment		(64,243)	(148,747)	(161,488)	(434,449)
Additions to intangible assets		(86)	(57)	(372)	(317)
Change in advances		865	(1,780)	23,645	(16,514)
Redemption of investments		-	-	-	156,615
Changes in non-cash working capital balances	12	(22,095)	(19,016)	(58,812)	135,169
Net cash used in investing activities		(85,559)	(169,600)	(197,027)	(159,496)
Financing activities					
Change in long-term debt		-	-	19,092	-
Change in restricted cash		85,211	123,255	228,049	132,777
Increase in shareholder contributions	10	-	42,664	16,074	82,608
Net cash provided from financing activities		85,211	165,919	263,215	215,385
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 Newfoundland and Labrador. Muskrat Falls is a 100% owned subsidiary of Nalcor Energy (Nalcor). Muskrat Falls' head office is located at 500 Columbus Drive, St. John's, Newfoundland and Labrador, A1B 0M4, Canada.

Muskrat Falls was formed to design, develop, construct, finance and operate the Muskrat Falls hydroelectric facility rated at 824 megawatts.

Muskrat Falls has entered into a power purchase agreement (PPA) with Newfoundland and Labrador Hydro (Hydro) for the sale of energy and capacity from the Muskrat Falls hydroelectric facility. Muskrat Falls has also entered into the Generator Interconnection Agreement (GIA) with Hydro and Labrador Transmission Corporation (Labrador Transco) which governs the development and operation of the Labrador Transmission Assets connecting the Muskrat Falls facility to the existing hydroelectric facility in Churchill Falls. Under the terms of the GIA, Muskrat Falls is required to pay for all costs associated with the Labrador Transmission Assets. Under the terms of the PPA, Muskrat Falls will recover all costs associated with the Muskrat Falls hydroelectric facility as well as the costs incurred by Muskrat Falls under the GIA. Hydro's obligation to pay for the costs under the PPA is absolute, non-conditional and irrevocable.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance and Basis of Measurement

These condensed interim financial statements have been prepared in accordance with *International Accounting Standard 34 - Interim Financial Reporting* and have been prepared using accounting policies consistent with those used in the preparation of the annual audited financial statements for the year ended December 31, 2019.

These condensed interim financial statements do not include all of the disclosures normally found in Muskrat Falls' annual audited financial statements and should be read in conjunction with the annual audited financial statements.

These condensed interim financial statements have been prepared on a historical cost basis and are presented in Canadian dollars with all values rounded to the nearest thousand, except when otherwise noted. The Board of Directors of Muskrat Falls has delegated the authority to approve the condensed interim financial statements to the Audit Committee of the Board of Directors of Nalcor, which approved the financial statements on November 13, 2020.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the condensed interim financial statements in conformity with IFRS 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. Significant accounting judgments, estimates and assumptions used in the preparation of the condensed interim financial statements are described in the Company's annual audited financial statements for the year ended December 31, 2019.

The World Health Organization declared the Coronavirus disease (COVID-19) outbreak a Public Health Emergency of International Concern on January 30, 2020 and a pandemic on March 11, 2020. In order to mitigate the spread of COVID-19 there have been global restrictions on travel, quarantines, self-isolation, social and physical distancing and forced closure of certain types of public places and non-essential businesses. These actions have caused lost time and a reduced workforce which has and continues to impact construction cost and schedule.

COVID-19 is an evolving situation that may have widespread implications for the Company's environment, operations and financial results. Management cannot reasonably estimate the duration and magnitude of the COVID-19 impact on the economy and future effect on the Company at this time.

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

4. PROPERTY, PLANT AND EQUIPMENT

<i>(thousands of Canadian dollars)</i>	Project Support Assets	Construction in Progress	Other	Total
Cost				
Balance at January 1, 2019	193,668	4,971,397	-	5,165,065
Additions	-	676,018	-	676,018
Other adjustments	(2)	-	-	(2)
Balance at December 31, 2019	193,666	5,647,415	-	5,841,081
Additions	-	269,037	520	269,557
Other adjustments	-	3,047	-	3,047
Balance at September 30, 2020	193,666	5,919,499	520	6,113,685
Depreciation				
Balance at January 1, 2019	160,506	-	-	160,506
Depreciation	23,406	-	-	23,406
Balance at December 31, 2019	183,912	-	-	183,912
Depreciation	9,754	-	8	9,762
Balance at September 30, 2020	193,666	-	8	193,674
Carrying value				
Balance at January 1, 2019	33,162	4,971,397	-	5,004,559
Balance at December 31, 2019	9,754	5,647,415	-	5,657,169
Balance at September 30, 2020	-	5,919,499	512	5,920,011

Capitalized Borrowing Costs

The construction of the Muskrat Falls hydroelectric facility is being financed through the issuance of long-term debt and contributed capital. For the period ended September 30, 2020, \$93.7 million (December 31, 2019 - \$111.8 million) of borrowing costs were capitalized.

5. TRADE AND OTHER PAYABLES

<i>As at (thousands of Canadian dollars)</i>	September 30 2020	December 31 2019
Trade payables	60,727	133,799
Accrued interest	43,121	14,563
Due to related parties	18,514	8,409
HST payable	15	30
	122,377	156,801

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	September 30 2020	December 31 2019
Tranche A	542,287	3.63	2013	2029	542,397	539,618
Tranche B	563,144	3.83	2013	2037	563,208	560,317
Tranche C	1,063,717	3.86	2013	2048	1,063,889	1,058,425
Tranche 1-10	170,831	1.14-1.75	2017	2020-2025	170,849	169,977
Tranche 11-20	187,117	1.84-2.37	2017	2025-2030	187,157	186,199
Tranche 21-30	210,737	2.41-2.64	2017	2030-2035	210,828	209,751
Tranche 31-40	240,429	2.66-2.80	2017	2035-2040	240,653	239,426
Tranche 41-50	276,180	2.81-2.86	2017	2040-2045	276,449	275,037
Tranche 51-60	317,934	2.84-2.86	2017	2045-2050	318,336	316,711
Tranche 61-64	140,206	2.85	2017	2050-2052	140,453	139,737
Total	3,712,582				3,714,219	3,695,198
Less: maturities of debt within one year					(33,222)	(16,526)
					3,680,997	3,678,672

Muskrat Falls and Labrador Transco are jointly and severally liable for the debt. Muskrat Falls recognizes its ratable share, which is based on its cumulative portion of actual debt drawn for the construction of the Muskrat Falls hydroelectric facility. As at September 30, 2020, Muskrat Falls' cumulative portion of actual debt drawn was 83.43% (December 31, 2019 – 83.00%).

7. OPERATING COSTS

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2020	2019	2020	2019
Salaries and benefits	244	306	567	571
Cost recoveries and other	26	55	272	111
Donations and community involvement	143	-	143	6
Professional services	29	23	68	77
Training	25	(65)	28	(42)
	467	319	1,078	723

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

8. NET FINANCE EXPENSE

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2020	2019	2020	2019
Finance income				
Interest on investments	-	-	275	486
Other interest	815	3,832	6,287	13,035
	815	3,832	6,562	13,521
Finance expense				
Interest and fees on long-term debt	32,341	32,175	100,206	96,520
Bank fees	2	2	6	6
	32,343	32,177	100,212	96,526
Interest capitalized during construction	(31,528)	(28,345)	(93,650)	(83,005)
	815	3,832	6,562	13,521
Net finance expense	-	-	-	-

Due to the MF/LTA PFA amendment in July 2015, cumulative adjustments were made in the current year to net finance expense to reflect Muskrat Falls' ratable share of the actual debt drawn.

9. FINANCIAL INSTRUMENTS

Fair Value

The estimated fair values of financial instruments as at September 30, 2020 and December 31, 2019 are based on relevant market prices and information available at the time. Fair value estimates are based on valuation techniques which are significantly affected by the assumptions used including the amount and timing of future cash flows and discount rates reflecting various degrees of risk. As such, the fair value estimates disclosed are not necessarily indicative of the amounts that Muskrat Falls might receive or incur in actual market transactions.

As a significant number of Muskrat Falls' assets and liabilities do not meet the definition of a financial instrument, the fair value estimates disclosed do not reflect the fair value of Muskrat Falls as a whole.

Establishing Fair Value

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the nature of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. For assets and liabilities that are recognized at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no transfers between Level 1, 2 and 3 fair value measurements during the period ended September 30, 2020 and the year ended December 31, 2019.

As at September 30, 2020 and December 31, 2019, the Company did not have any Level 3 instruments.

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

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		September 30, 2020		December 31, 2019	
<i>(thousands of Canadian dollars)</i>					
Financial liabilities					
Long-term debt including amount due within one year	2	3,714,219	4,692,129	3,695,198	4,278,547

The fair values of restricted cash, advances, trade and other receivables and trade and other payables approximate their carrying values due to their short-term maturity.

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.

10. RELATED PARTY TRANSACTIONS

Muskrat Falls enters into various transactions with its parent and other affiliates. These transactions occur in the normal course of operations and are measured at the exchange amount, which is the amount of consideration agreed to by the related parties. Related parties with which Muskrat Falls transacts are as follows:

Related Party	Relationship
Nalcor	100% shareholder of Muskrat Falls
Hydro	Wholly-owned subsidiary of Nalcor
Labrador Transco	Wholly-owned subsidiary of Nalcor
Lower Churchill Management Corporation (LCMC)	Wholly-owned subsidiary of Nalcor
Labrador-Island Link Limited Partnership (LIL LP)	Limited partnership between Labrador-Island Link Holding Corporation and Emera Newfoundland and Labrador Island Link Inc.

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

- (a) As at September 30, 2020, Muskrat Falls has related party payables totaling \$18.5 million (December 31, 2019 - \$8.4 million) with LCMC and Nalcor and related party receivables totaling \$0.7 million (December 31, 2019 - \$2.3 million) with LIL LP and Labrador Transco. These payables and receivables consist of various intercompany operating and construction costs.
- (b) For the period ended September 30, 2020, Muskrat Falls has received contributions from Nalcor totaling \$16.1 million (September 30, 2019 – \$82.6 million).

11. COMMITMENTS AND CONTINGENCIES

- (a) Muskrat Falls has entered into the GIA and PPA with Labrador Transco and Hydro, for an expected term of 57 years, whereby Muskrat Falls has committed to design, construct, operate and maintain the Muskrat Falls hydroelectric facility, and provide such other services as agreed to ensure safe and reliable transmission of electricity.
- (b) As part of the MF/LTA Project Finance Agreement (MF/LTA PFA), Muskrat Falls has pledged its present and future assets as security to the Collateral Agent.

MUSKRAT FALLS CORPORATION

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

- (c) In July 2012, Nalcor entered into the Energy and Capacity Agreement with Emera Inc. (Emera) providing for the sale and delivery of the Nova Scotia Block, 0.986 TWh of energy annually for a term of 35 years. In October, 2015 Nalcor assigned this agreement to Muskrat Falls. As a result of this assignment, Nalcor and Muskrat Falls are jointly liable for the delivery of the Nova Scotia Block to Emera.
- (d) Muskrat Falls is subject to legal proceedings in the normal course of business. Although the outcome of such actions cannot be predicted with certainty, Management currently believes Muskrat Falls' exposure to such claims and litigation, to the extent not covered by insurance policies or otherwise provided for will not materially affect its financial position. Muskrat Falls possesses certain securities that protect it against financial liability associated with liens and claims made by subcontractors and suppliers.
- (e) Outstanding commitments for capital projects total approximately \$96.5 million as at September 30, 2020 (December 31, 2019 - \$75.2 million).

12. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2020	2019	2020	2019
Trade and other receivables	3,261	916	3,924	200,040
Trade and other payables	(25,338)	(19,910)	(62,722)	(64,904)
Changes in non-cash working capital balances	(22,077)	(18,994)	(58,798)	135,136
Related to:				
Operating activities	18	22	14	(33)
Investing activities	(22,095)	(19,016)	(58,812)	135,169
	(22,077)	(18,994)	(58,798)	135,136