

LABRADOR TRANSMISSION CORPORATION
CONDENSED INTERIM FINANCIAL STATEMENTS
March 31, 2015
(Unaudited)

DIRECTORS

EDMUND MARTIN
President and Chief Executive Officer

GILBERT BENNETT
Vice President

DERRICK STURGE
Vice President, Finance and Chief Financial Officer

PAUL HUMPHRIES
Vice President, System Operations and Planning

ANN MARIE HANN
President, Coal Association of Canada

CHRIS WOODFORD
Architect, Woodford, Sheppard Architecture

OFFICERS

EDMUND MARTIN
Chairperson
President and Chief Executive Officer

GILBERT BENNETT
Vice President, Lower Churchill Project

DERRICK STURGE
Vice President, Finance and Chief Financial Officer

PAUL HUMPHRIES
Vice President, System Operations and Planning

WAYNE CHAMBERLAIN
General Counsel and Corporate Secretary

PETER HICKMAN
Assistant Corporate Secretary

JAMES MEANEY
General Manager, Finance

AUBURN WARREN
General Manager, Commercial, Treasury and Risk

HEAD AND CORPORATE OFFICE

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LABRADOR TRANSMISSION CORPORATION
STATEMENT OF FINANCIAL POSITION
(Unaudited)

<i>As at (thousands of Canadian dollars)</i>	Notes	March 31 2015	December 31 2014
ASSETS			
Current assets			
Restricted cash	3	104,262	106,032
Trade and other receivables	4	6,701	12,717
Prepayments		404	404
Total current assets		111,367	119,153
Non-current assets			
Property, plant and equipment	5	371,376	321,281
Long-term investments	6	187,590	224,746
Long-term prepayments		980	1,081
Total assets		671,313	666,261
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Trade and other payables		67,986	62,910
Non-current liabilities			
Long-term debt	7	468,101	468,102
Total liabilities		536,087	531,012
Shareholder's equity			
Share capital		1	1
Shareholder contributions		135,537	135,537
Deficit		(312)	(289)
Total shareholder's equity		135,226	135,249
Total liabilities and shareholder's equity		671,313	666,261

Commitments and contingencies (Note 11)

See accompanying notes

LABRADOR TRANSMISSION CORPORATION
STATEMENT OF COMPREHENSIVE LOSS
(Unaudited)

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Three months ended	
	2015	2014
Operating costs	(23)	(20)
Loss for the period, being the comprehensive loss for the period	(23)	(20)

See accompanying notes

LABRADOR TRANSMISSION CORPORATION
STATEMENT OF CHANGES IN EQUITY
(Unaudited)

<i>(thousands of Canadian dollars)</i>	Share Capital	Contributed Capital	Deficit	Total
Balance at January 1, 2015	1	135,537	(289)	135,249
Total comprehensive loss for the period	-	-	(23)	(23)
Balance at March 31, 2015	1	135,537	(312)	135,226
Balance at January 1, 2014	1	107,631	(34)	107,598
Total comprehensive loss for the period	-	-	(20)	(20)
Balance at March 31, 2014	1	107,631	(54)	107,578

See accompanying notes

LABRADOR TRANSMISSION CORPORATION
STATEMENT OF CASH FLOWS
(Unaudited)

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Notes	Three months ended	
		2015	2014
Cash provided from (used in)			
Operating activities			
Loss for the period		(23)	(20)
Adjusted for items not involving a cash flow:			
Amortization of long-term prepayments		101	-
Accretion of long-term debt		(1)	(1)
Changes in non-cash working capital balances	12	11,092	12,832
Net cash provided from operating activities		11,169	12,811
Investing activities			
Additions to property, plant and equipment	5	(50,095)	(29,307)
Decrease in long-term investments	6	37,156	42,928
Net cash (used in) provided from investing activities		(12,939)	13,621
Financing activities			
Decrease (increase) in restricted cash	3	1,770	(26,432)
Net cash provided from (used in) financing activities		1,770	(26,432)
Net change in cash and cash equivalents		-	-
Cash and cash equivalents, beginning of period		-	-
Cash and cash equivalents, end of period		-	-

Supplementary cash flow information (Note 12)

See accompanying notes

LABRADOR TRANSMISSION CORPORATION
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

1. DESCRIPTION OF BUSINESS

Labrador Transmission Corporation (Labrador Transco or the Company) was incorporated on November 13, 2013 under the laws of Newfoundland and Labrador to design, construct, finance, operate and maintain the Labrador Transmission Assets (LTA), which includes two 900 megawatt rated transmission lines connecting the Muskrat Falls hydro-electric plant, the Churchill Falls (Labrador) Corporation hydro-electric facility, the Labrador-Island Link (LIL) and certain other portions of the transmission system in Labrador. The head office of Labrador Transco is located in St. John's, Newfoundland and Labrador.

Labrador Transco is a 100% owned subsidiary of Nalcor Energy (Nalcor).

Newfoundland and Labrador Hydro (Hydro), Muskrat Falls Corporation (Muskrat Falls), and Labrador Transco have entered into the Generator Interconnection Agreement (the GIA), which governs the development and operation of the LTA. Under the terms of the GIA, Labrador Transco will recover all costs associated with the LTA from Muskrat Falls, which in turn will recover all costs incurred under the GIA as part of a power purchase agreement (PPA) with Hydro.

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 (IAS) 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, 2014.

These condensed interim financial statements do not include all of the disclosures normally found in Labrador Transco's 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.

3. RESTRICTED CASH

Restricted cash is held in accounts administered by a Collateral Agent for the sole purpose of funding construction costs related to the LTA. The Company draws funds from this account on a monthly basis in accordance with procedures set out in the MF/LTA Project Finance Agreement (PFA).

4. TRADE AND OTHER RECEIVABLES

The composition of trade and other receivables is as follows:

	March 31	December 31
	2015	2014
<i>(thousands of Canadian dollars)</i>		
Receivables due from related parties	4,134	5,791
Other receivables	2,567	6,926
	6,701	12,717

Other receivables are comprised primarily of input tax credits plus a small amount of accrued interest.

LABRADOR TRANSMISSION CORPORATION
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

5. PROPERTY, PLANT AND EQUIPMENT

Capitalized costs related to the construction of the LTA are shown in the table below:

<i>(thousands of Canadian dollars)</i>	Balance, January 1, 2015	Additions	Accumulated Depreciation	Balance, March 31, 2015
Project support assets	4,645	(32)	338	4,275
Construction in progress	316,636	50,465	-	367,101
	321,281	50,433	338	371,376

Capitalized Borrowing Costs

The construction of the LTA was sanctioned in December 2012. The construction is being financed through the issuance of long-term debt and contributed capital. For the three months ended March 31, 2015, \$3.2 million (December 31, 2014 - \$11.6 million) of borrowing costs were capitalized. The effective interest rate of the debt is 3.80%.

6. INVESTMENTS

In December 2013, the Company, jointly with Muskrat Falls, purchased three structured deposit notes using the proceeds from the issue of long-term debt. Labrador Transco recognizes its rateable share of 18% of these investments. Labrador Transco's rateable share was determined based on the percentage of the proceeds of long-term debt allocated for the construction of the LTA.

Details on the investments are as follows:

<i>(thousands of Canadian dollars)</i>	March 31 2015	December 31 2014
\$75.0 million Floating Rate Deposit Note, with interest paid at the one-month Canadian Dealer Offer Rate (CDOR) plus 0.38%.	13,500	13,500
\$478.2 million Amortizing Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.38%.	34,818	42,249
\$1,912.7 million Amortizing Fixed Rate Deposit Note, with interest paid at a rate of 1.5937% per annum.	139,272	168,997
	187,590	224,746

7. LONG-TERM DEBT

Details of the long-term debt are as follows:

	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	March 31 2015	December 31 2014
<i>(thousands of Canadian dollars)</i>						
Tranche A	117,000	3.63	2013	2029	117,039	117,039
Tranche B	121,500	3.83	2013	2037	121,518	121,519
Tranche C	229,500	3.86	2013	2048	229,544	229,544
Total debentures	468,000				468,101	468,102

LABRADOR TRANSMISSION CORPORATION
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

8. NET FINANCE INCOME AND EXPENSE

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Three months ended	
	2015	2014
Finance income		
Interest on investments	828	1,519
Other interest income	379	157
	1,207	1,676
Finance expense		
Interest on long-term debt	(4,440)	(4,440)
Interest capitalized during construction	3,233	2,764
	(1,207)	(1,676)
Net finance income and expense	-	-

9. FINANCIAL INSTRUMENTS

Fair Value

The estimated fair values of financial instruments as at March 31, 2015 and December 31, 2014 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 below are not necessarily indicative of the amounts that Labrador Transco might receive or incur in actual market transactions.

As a significant number of Labrador Transco's assets and liabilities do not meet the definition of a financial instrument, the fair value estimates below do not reflect the fair value of Labrador Transco 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 measurement during the period ended March 31, 2015 and the year ended December 31, 2014.

As of March 31, 2015 and December 31, 2014, the Company did not have any level 3 instruments.

LABRADOR TRANSMISSION CORPORATION
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		March 31, 2015		December 31, 2014	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Restricted cash	1	104,262	104,262	106,032	106,032
Trade and other receivables	1	6,701	6,701	12,717	12,717
Investments	2	187,590	187,964	224,746	224,780
Financial liabilities					
Trade and other payables	1	67,986	67,986	62,910	62,910
Long-term debt	2	468,101	586,927	468,102	550,911

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

10. RELATED PARTY TRANSACTIONS

Labrador Transco 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 Labrador Transco transacts are as follows:

Related Party	Relationship
Nalcor	100% shareholder of Labrador Transco
Muskrat Falls	100% owned subsidiary of Nalcor
Muskrat Falls/Labrador Transmission Assets Funding Trust	Party to the PFA
Lower Churchill Management Corporation	100% owned subsidiary of Nalcor
Labrador-Island Link Limited Partnership	Limited partnership between Nalcor and Emera NL
Hydro	100% owned subsidiary of Nalcor

11. COMMITMENTS AND CONTINGENCIES

- (a) Labrador Transco has entered into the GIA with Muskrat Falls and Hydro, whereby Labrador Transco has committed to design, construct, operate and maintain the LTA, and provides such other services as agreed to ensure safe and reliable transmission of electricity.
- (b) As part of the PFA, Labrador Transco has pledged its present and future assets as security to the Collateral Agent.
- (c) Labrador Transco 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 Labrador Transco's exposure to such claims and litigation, to the extent not covered by insurance policies or otherwise provided for is not expected to materially affect its financial position.
- (d) As at March 31, 2015, Labrador Transco had outstanding commitments for construction costs related to the LTA of \$421.7 million (December 31, 2014 - \$509.7 million).

LABRADOR TRANSMISSION CORPORATION
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

12. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Three months ended	
	2015	2014
Trade and other receivables	6,016	(12,431)
Prepayment	-	1
Trade and other payables	5,076	25,262
Changes in non-cash working capital balances	11,092	12,832
Interest received	1,205	1,606