

**LABRADOR TRANSMISSION CORPORATION**  
**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**September 30, 2014**  
**(Unaudited)**

**DIRECTORS**

EDMUND J. 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 J. MARTIN  
Chairperson

GILBERT BENNETT  
Vice President

DERRICK STURGE  
Vice President, Finance and Chief Financial Officer

PAUL HUMPHRIES  
Vice President, System Planning

WAYNE CHAMBERLAIN  
General Counsel and Corporate Secretary

PETER HICKMAN  
Assistant Corporate Secretary

JAMES MEANEY  
General Manager, Finance

AUBURN WARREN  
General Manager Commercial, Treasury & Risk

**HEAD OFFICE**

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**LABRADOR TRANSMISSION CORPORATION**  
**STATEMENT OF FINANCIAL POSITION**  
**(Unaudited)**

<i>As at (thousands of Canadian dollars)</i>	Notes	September 30 2014	December 31 2013
<b>ASSETS</b>			
Current assets			
Restricted cash	3	108,292	69,978
Other receivables	4	7,744	102
Prepaid		216	323
<b>Total current assets</b>		<b>116,252</b>	<b>70,403</b>
Non-current assets			
Property, plant and equipment	5	263,604	126,702
Investments	6	267,135	396,717
Long-term prepaid		680	843
<b>Total assets</b>		<b>647,671</b>	<b>594,665</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>			
Current liabilities			
Trade and other payables		72,000	18,960
<b>Total current liabilities</b>		<b>72,000</b>	<b>18,960</b>
Non-current liabilities			
Long-term debt	7	468,104	468,107
<b>Total liabilities</b>		<b>540,104</b>	<b>487,067</b>
Shareholder's equity			
Share capital		1	1
Contributed capital		107,631	107,631
Deficit		(65)	(34)
<b>Total shareholder's equity</b>		<b>107,567</b>	<b>107,598</b>
<b>Total liabilities and shareholder's equity</b>		<b>647,671</b>	<b>594,665</b>

Commitments and contingencies (Note 11)

*See accompanying notes*

**LABRADOR TRANSMISSION CORPORATION**  
**STATEMENT OF COMPREHENSIVE LOSS**  
**(Unaudited)**

	<b>Three Months Ended</b>	<b>Nine Months Ended</b>
<i>For the period ended September 30 (thousands of Canadian dollars)</i>	<b>2014</b>	<b>2014</b>
	<b>(Note 1)</b>	<b>(Note 1)</b>
Operating costs	<b>9</b>	<b>(31)</b>
Expenses	<b>9</b>	<b>(31)</b>
Income (loss) for the period, being total comprehensive loss for the period	<b>9</b>	<b>(31)</b>

*See accompanying notes*

**LABRADOR TRANSMISSION CORPORATION**  
**STATEMENT OF CHANGES IN EQUITY**  
**(Unaudited)**

<i>(thousands of Canadian dollars)</i>	Share Capital	Shareholder Contributions	Deficit	Total
Balance at January 1, 2014	<b>1</b>	<b>107,631</b>	<b>(34)</b>	<b>107,598</b>
Total comprehensive loss for the period	-	-	<b>(31)</b>	<b>(31)</b>
<b>Balance at September 30, 2014</b>	<b>1</b>	<b>107,631</b>	<b>(65)</b>	<b>107,567</b>

*See accompanying notes*

**LABRADOR TRANSMISSION CORPORATION**  
**STATEMENT OF CASH FLOWS**  
**(Unaudited)**

	Notes	Three Months Ended	Nine Months Ended
<i>For the period ended September 30 (thousands of Canadian dollars)</i>		<b>2014</b>	<b>2014</b>
		<b>(Note 1)</b>	<b>(Note 1)</b>
Cash provided by (used in)			
Operating activities			
(Loss) profit for the period		9	(31)
Amortization of long-term debt		(1)	(3)
Decrease in long-term prepaid		163	163
Changes in non-cash working capital balances	12	9,992	45,505
Net cash from operating activities		<b>10,163</b>	<b>45,634</b>
Investing activities			
Additions to property, plant and equipment	5	(63,680)	(136,902)
Decrease in investments		35,399	129,582
Net cash used in investing activities		<b>(28,281)</b>	<b>(7,320)</b>
Financing Activities			
Decrease (increase) in restricted cash	3	18,118	(38,314)
Net cash from financing activities		<b>18,118</b>	<b>(38,314)</b>
Net increase in cash		-	-
Cash at beginning of period		-	-
Cash at end of period		-	-

Supplementary cash flow information (Note 12)

*See accompanying notes*

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

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**1. DESCRIPTION OF BUSINESS**

Labrador Transmission Corporation (Labrador Transco or the Company) was incorporated on November 13, 2013 under the laws of Canada to design, construct, finance, operate and maintain the Labrador Transmission Assets (LTA), which includes two 900 megawatt (MW) 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 all 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.

As Labrador Transco was incorporated in November 2013, no comparative information has been presented for statements of comprehensive loss, changes in equity and cash flows and related note disclosures.

**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*.

These condensed interim financial statements have been prepared using the accounting policies, critical accounting judgments and key estimates consistent with those used in the preparation of the Annual Audited Financial Statements for the period ended December 31, 2013. 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 except as detailed in the accounting policies disclosed in the Company's financial statements for the period ended December 31, 2013. The condensed interim financial statements are presented in Canadian dollars and all values rounded to the nearest thousand, except when otherwise noted.

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

**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 Muskrat Falls/Labrador Transmission Assets Project Finance Agreement (PFA).

**4. OTHER RECEIVABLES**

The composition of other receivables is as follows:

<i>(thousands of Canadian dollars)</i>	<b>September 30 2014</b>	December 31 2013
Receivables due from related parties	<b>5,378</b>	97
Other receivables	<b>2,366</b>	5
	<b>7,744</b>	102

**5. PROPERTY, PLANT AND EQUIPMENT**

<i>(thousands of Canadian dollars)</i>	Construction in Progress	
	<b>September 30 2014</b>	December 31 2013
Cost		
Beginning balance	<b>126,702</b>	-
Contributions	-	108,907
Additions	<b>136,902</b>	17,795
Ending balance	<b>263,604</b>	126,702

As at September 30, 2014 and December 31, 2013, all amounts recorded in construction in progress relate to the development of the LTA. On November 30, 2013, Nalcor contributed construction in progress of \$108.9 million to Labrador Transco. There were no additional contributions in 2014.

Capitalized Borrowing Costs

The construction of the LTA was sanctioned in December 2012 and is expected to take several years to complete. The construction is being financed, in part through the issuance of long-term debt. As at September 30, 2014, \$8.4 million of borrowing costs were capitalized (December 31, 2013 - \$0.6 million). The effective interest rate of the debt is 3.8%.

**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.



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

**6. INVESTMENTS (cont'd.)**

Details on the investments as of September 30, 2014 and December 31, 2013 are as follows:

<i>(thousands of Canadian dollars)</i>	<b>September 30 2014</b>	December 31 2013
\$75.0 million Floating Rate Deposit Note with interest paid at the One-Month Canadian Dealer Offer Rate (CDOR) plus 0.38%.	<b>13,500</b>	13,500
\$478.2 million Amortizing Floating Rate Deposit Note, with interest paid at the One-Month CDOR plus 0.38%.	<b>50,727</b>	76,643
\$1,912.7 million Amortizing Fixed Rate Deposit Note with interest paid at a rate of 1.5937% per annum.	<b>202,908</b>	306,574
	<b>267,135</b>	396,717

**7. LONG-TERM DEBT**

Details of the long-term debt are as follows:

	<b>Face Value</b>	<b>Coupon Rate %</b>	<b>Year of Issue</b>	<b>Year of Maturity</b>	<b>September 30 2014</b>	December 31 2013
<i>(thousands of dollars)</i>						
Tranche A	117,000	3.63	2013	2029	<b>117,040</b>	117,042
Tranche B	121,500	3.83	2013	2037	<b>121,519</b>	121,519
Tranche C	229,500	3.86	2013	2048	<b>229,545</b>	229,546
Total debentures	<u>468,000</u>				<b>468,104</b>	468,107

**8. NET FINANCE INCOME AND COSTS**

	<b>Three Months Ended 2014</b>	<b>Nine Months Ended 2014</b>
<i>For the period ended September 30 (thousands of Canadian dollars)</i>		
Finance income		
Interest on investments	<b>1,165</b>	<b>4,027</b>
Other interest income	<b>526</b>	<b>946</b>
	<b>1,691</b>	<b>4,973</b>
Finance costs		
Interest on long-term debt	<b>(4,545)</b>	<b>(13,329)</b>
Interest capitalized during construction	<b>2,854</b>	<b>8,356</b>
Net finance costs	<b>-</b>	<b>-</b>

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

**9. FINANCIAL INSTRUMENTS**

**Fair Value**

The estimated fair values of financial instruments are based on September 30, 2014 and December 31, 2013 relevant market prices and information available at the time when the information exists. 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 the Company might receive or incur in actual market transactions.

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 includes 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 September 30, 2014 and December 31, 2013.

As of September 30, 2014 and December 31, 2013, the Company did not have any level 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		September 30, 2014		December 31, 2013	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Restricted cash	1	108,292	108,292	69,978	69,978
Other receivables	1	7,744	7,744	102	102
Investments	2	267,135	267,190	396,717	396,650
Financial liabilities					
Trade and other payables	1	72,000	72,000	18,960	18,960
Long-term debt	2	468,104	521,960	468,107	475,870

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

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

**10. RELATED PARTY TRANSACTIONS**

The Labrador Transco enters into various transactions with its parent and other affiliates. 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. Related parties with which Labrador Transco transacts are as follows:

Related Party	Relationship
Nalcor	100% shareholder of Labrador Transco
Muskkrat Falls	100% owned subsidiary of Nalcor
Muskkrat Falls/Labrador Transmission Assets Funding Trust	Party to the MF/LTA Project Finance Agreement
Lower Churchill Management Corporation	100% owned subsidiary of Nalcor
Hydro	100% owned subsidiary of Nalcor
LIL LP	Limited Partnership between LIL Holdco and Emera NL

**11. COMMITMENTS AND CONTINGENCIES**

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 the financial position of Labrador Transco.

As at September 30, 2014, Labrador Transco had outstanding commitments for construction costs related to the LTA of \$285.7 million (December 31, 2013 - \$337.8 million).

**12. SUPPLEMENTARY CASH FLOW INFORMATION**

	Three Months Ended	Nine Months Ended
<i>For the period ended September 30 (thousands of Canadian dollars)</i>		
Other receivables	(4,535)	(7,642)
Prepaid	-	107
Trade and other payables	14,527	53,040
Changes in non-cash working capital balances	9,992	45,505
Interest received	1,489	4,978
Interest paid	1	8,165

**13. SUBSEQUENT EVENTS**

Subsequent to September 30 2014, Labrador Transco entered into new capital commitments totalling \$133.4 million.

**14. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform to the presentation adopted during the current reporting period.