

**LABRADOR TRANSMISSION CORPORATION**  
**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**September 30, 2015**  
**(Unaudited)**

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

<i>As at (thousands of Canadian dollars)</i>	Notes	<b>September 30</b> <b>2015</b>	December 31 2014
<b>ASSETS</b>			
Current assets			
Restricted cash		<b>193,716</b>	106,032
Current portion of long-term investments	6	<b>123,878</b>	147,832
Trade and other receivables	4	<b>17,533</b>	12,717
Prepayments		<b>404</b>	404
<b>Total current assets</b>		<b>335,531</b>	266,985
Non-current assets			
Property, plant and equipment	5	<b>540,535</b>	321,281
Long-term investments	6	<b>21,894</b>	76,914
Long-term prepayments		<b>778</b>	1,081
<b>Total assets</b>		<b>898,738</b>	666,261
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>			
Current liabilities			
Trade and other payables	7	<b>101,418</b>	62,910
Non-current liabilities			
Long-term debt	8	<b>650,137</b>	468,102
<b>Total liabilities</b>		<b>751,555</b>	531,012
Shareholder's equity			
Share capital		<b>1</b>	1
Shareholder contributions	9	<b>147,614</b>	135,537
Deficit		<b>(432)</b>	(289)
<b>Total shareholder's equity</b>		<b>147,183</b>	135,249
<b>Total liabilities and shareholder's equity</b>		<b>898,738</b>	666,261

Commitments and contingencies (Note 13)

*See accompanying notes*

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

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>2015</b>	2014	<b>2015</b>	2014
Operating costs	<b>44</b>	(9)	<b>143</b>	31
Total comprehensive (loss) income for the period	<b>(44)</b>	9	<b>(143)</b>	(31)

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

<i>(thousands of Canadian dollars)</i>	Notes	Share Capital	Shareholder Contributions	Deficit	Total
<b>Balance at January 1, 2015</b>		<b>1</b>	<b>135,537</b>	<b>(289)</b>	<b>135,249</b>
<b>Total comprehensive loss for the period</b>		-	-	<b>(143)</b>	<b>(143)</b>
<b>Shareholder contributions</b>	<b>9</b>	-	<b>12,077</b>	-	<b>12,077</b>
<b>Balance at September 30, 2015</b>		<b>1</b>	<b>147,614</b>	<b>(432)</b>	<b>147,183</b>
Balance at January 1, 2014		1	107,631	(34)	107,598
Total comprehensive loss for the period		-	-	(31)	(31)
Balance at September 30, 2014		1	107,631	(65)	107,567

See accompanying notes

**LABRADOR TRANSMISSION 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	
		2015	2014	2015	2014
Cash provided from (used in)					
Operating activities					
(Loss) profit for the period		<b>(44)</b>	9	<b>(143)</b>	(31)
Adjusted for items not involving a cash flow:					
Amortization of long-term prepayments		<b>101</b>	163	<b>303</b>	163
Accretion of long-term debt	8	<b>(2)</b>	(1)	<b>(4)</b>	(3)
Changes in non-cash working capital balances	14	<b>(9,795)</b>	9,992	<b>33,692</b>	45,505
<b>Net cash (used in) provided from operating activities</b>		<b>(9,740)</b>	10,163	<b>33,848</b>	45,634
Investing activities					
Additions to property, plant and equipment	5	<b>(71,838)</b>	(63,680)	<b>(219,254)</b>	(136,902)
(Increase) decrease in long-term investments	6	<b>(7,289)</b>	35,399	<b>78,974</b>	129,582
<b>Net cash used in investing activities</b>		<b>(79,127)</b>	(28,281)	<b>(140,280)</b>	(7,320)
Financing activities					
Increase in long-term debt	8	<b>182,039</b>	-	<b>182,039</b>	-
(Increase) decrease in restricted cash		<b>(105,249)</b>	18,118	<b>(87,684)</b>	(38,314)
Increase in shareholder contributions	9	<b>12,077</b>	-	<b>12,077</b>	-
<b>Net cash provided from (used in) financing activities</b>		<b>88,867</b>	18,118	<b>106,432</b>	(38,314)
Net increase (decrease) in cash and cash equivalents		-	-	-	-
Cash and cash equivalents, beginning of period		-	-	-	-
Cash and cash equivalents, end of period		-	-	-	-

Supplementary cash flow information (Note 14)

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 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 hydroelectric plant, the Churchill Falls (Labrador) Corporation hydroelectric 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 (MF/LTA PFA).

**4. TRADE AND OTHER RECEIVABLES**

The composition of trade and other receivables is as follows:

<i>(thousands of Canadian dollars)</i>	<b>September 30</b>	December 31
	<b>2015</b>	2014
Receivables due from related parties	<b>13,098</b>	5,791
Other receivables	<b>4,435</b>	6,926
	<b>17,533</b>	12,717

Other receivables are comprised of input tax credits and 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>	January 1 2015	Additions	Accumulated Depreciation	<b>September 30 2015</b>
Project support assets	4,645	(32)	1,013	<b>3,600</b>
Construction in progress	316,636	220,299	-	<b>536,935</b>
	321,281	220,267	1,013	<b>540,535</b>

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 nine months ended September 30, 2015, \$19.6 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. The investments are restricted in nature and are subject to the provisions contained within the MF/LTA PFA. In July 2015, Labrador Transco, Muskrat Falls, the Muskrat Falls/Labrador Transmission Assets Funding Trust (MF/LTA Funding Trust) and the Collateral Agent executed an amendment to the PFA. Under the amended PFA Labrador Transco recognizes its ratable share of these investments, which is based on its cumulative portion of actual debt drawn for the construction of the LTA. As of September 30, 2015, Labrador Transco's portion was 25% (December 31, 2014 -18%).

Details on the investments are as follows:

<i>(thousands of Canadian dollars)</i>	<b>September 30 2015</b>	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%.	<b>18,750</b>	13,500
\$478.2 million Amortizing Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.38%.	<b>25,404</b>	42,249
\$1,912.7 million Amortizing Fixed Rate Deposit Note, with interest paid at a rate of 1.5937% per annum.	<b>101,618</b>	168,997
	<b>145,772</b>	224,746
Less: payments to be received within one year	<b>123,878</b>	147,832
Total long-term investments	<b>21,894</b>	76,914

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

**7. TRADE AND OTHER PAYABLES**

The composition of trade and other payables is as follows:

	<b>September 30</b>	December 31
	<b>2015</b>	2014
<i>(thousands of Canadian dollars)</i>		
Trade payables	<b>92,091</b>	56,871
Payables due to related parties	<b>1,088</b>	4,552
Accrued interest payable	<b>8,222</b>	1,480
Other payables	<b>17</b>	7
	<b>101,418</b>	62,910

**8. 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</b>	December 31
					<b>2015</b>	2014
<i>(thousands of Canadian dollars)</i>						
Tranche A	162,500	3.63	2013	2029	<b>162,552</b>	117,039
Tranche B	168,750	3.83	2013	2037	<b>168,775</b>	121,519
Tranche C	318,750	3.86	2013	2048	<b>318,810</b>	229,544
Total debentures	650,000				<b>650,137</b>	468,102

In July 2015, Labrador Transco, Muskrat Falls, the MF/LTA Funding Trust and the Collateral Agent executed an amendment to the PFA. Under the amendment Labrador Transco continues to be jointly and severally liable for the total credit facility, however Labrador Transco's portion of the ratable share is based on its cumulative portion of actual debt drawn for the construction of the LTA. As of September 30, 2015, Labrador Transco's cumulative portion of actual debt drawn was 25% (December 31, 2014 -18%).

**9. SHAREHOLDER'S EQUITY**

**Shareholder Contributions**

	<b>September 30</b>	December 31
	<b>2015</b>	2014
<i>(thousands of Canadian dollars)</i>		
Total shareholder contributions	<b>147,614</b>	135,537

During 2015, Nalcor made contributions to Labrador Transco totaling \$12.1 million (December 31, 2014 - nil). These contributions were used to fund construction activities of the LTA.



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

**10. NET FINANCE (INCOME) EXPENSE**

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>2015</b>	2014	<b>2015</b>	2014
Finance income				
Interest on investments	<b>3,276</b>	1,165	<b>4,763</b>	4,027
Other interest income	<b>639</b>	526	<b>1,401</b>	946
	<b>3,915</b>	1,691	<b>6,164</b>	4,973
Finance expense				
Interest on long-term debt	<b>16,864</b>	4,545	<b>25,743</b>	13,329
Interest capitalized during construction	<b>(12,949)</b>	(2,854)	<b>(19,579)</b>	(8,356)
	<b>3,915</b>	1,691	<b>6,164</b>	4,973
Net finance (income) expense	-	-	-	-

**11. FINANCIAL INSTRUMENTS**

**Fair Value**

The estimated fair values of financial instruments as at September 30, 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 September 30, 2015 and the year ended December 31, 2014.

As at September 30, 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
		September 30, 2015		December 31, 2014	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Restricted cash	1	193,716	193,716	106,032	106,032
Trade and other receivables	1	17,533	17,533	12,717	12,717
Investments	2	145,772	146,020	224,746	224,780
Financial liabilities					
Trade and other payables	1	101,418	101,418	62,910	62,910
Long-term debt	2	650,137	768,771	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.

**12. 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
MF/LTA 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

- (a) As at September 30, 2015, Labrador Transco has related party payables of \$1.1 million (December 31, 2014 - \$4.6 million) and related party receivables for \$13.1 million (December 31, 2014 - \$5.8 million). These payables/receivables consist of various intercompany operating and construction costs.
- (b) As at September 30, 2015, Labrador Transco has received contributions from Nalcor totaling \$147.6 million (December 31, 2014 - \$135.5 million). Contributions include cash, property, plant and equipment and associated liabilities related to the construction of the LTA.

**13. 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.

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

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(d) As at September 30, 2015, Labrador Transco had outstanding commitments for construction costs related to the LTA of \$376.1 million (December 31, 2014 - \$509.7 million).

**14. SUPPLEMENTARY CASH FLOW INFORMATION**

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>2015</b>	2014	<b>2015</b>	2014
Trade and other receivables	<b>(7,354)</b>	(4,535)	<b>(4,816)</b>	(7,642)
Prepayment	-	-	-	107
Trade and other payables	<b>(2,441)</b>	14,527	<b>38,508</b>	53,040
Changes in non-cash working capital balances	<b>(9,795)</b>	9,992	<b>33,692</b>	45,505
Interest received	<b>3,928</b>	1,489	<b>6,165</b>	4,978
Interest paid	-	1	<b>8,880</b>	8,165

**15. COMPARATIVE FIGURES**

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