

**LABRADOR TRANSMISSION CORPORATION**  
**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**June 30, 2016**  
**(Unaudited)**

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

<i>As at (thousands of Canadian dollars)</i>	Notes	<b>June 30 2016</b>	December 31 2015
<b>ASSETS</b>			
Current assets			
Restricted cash		<b>158,728</b>	214,615
Current portion of long-term investments	5	<b>30,352</b>	87,764
Trade and other receivables		<b>3,443</b>	11,787
Prepayments		<b>404</b>	404
<b>Total current assets</b>		<b>192,927</b>	314,570
Non-current assets			
Property, plant and equipment	3	<b>721,564</b>	633,782
Intangible assets	4	<b>41</b>	51
Long-term investments	5	<b>13,556</b>	14,788
Long-term prepayments		<b>474</b>	677
<b>Total assets</b>		<b>928,562</b>	963,868
<b>LIABILITIES AND EQUITY</b>			
Current liabilities			
Trade and other payables		<b>118,244</b>	128,106
Non-current liabilities			
Long-term debt	6	<b>572,116</b>	624,130
<b>Total liabilities</b>		<b>690,360</b>	752,236
Shareholder's equity			
Share capital		<b>1</b>	1
Shareholder contributions	7	<b>238,800</b>	212,150
Deficit		<b>(599)</b>	(519)
<b>Total equity</b>		<b>238,202</b>	211,632
<b>Total liabilities and equity</b>		<b>928,562</b>	963,868

Commitments and contingencies (Note 12)

*See accompanying notes*

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

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Notes	<b>Three months ended</b>		<b>Six months ended</b>	
		<b>2016</b>	2015	<b>2016</b>	2015
Operating costs		<b>34</b>	77	<b>71</b>	99
Other (income) expense	9	<b>12</b>	-	<b>9</b>	-
<b>Total comprehensive loss for the period</b>		<b>(46)</b>	(77)	<b>(80)</b>	(99)

*See accompanying notes*

**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, 2016</b>		<b>1</b>	<b>212,150</b>	<b>(519)</b>	<b>211,632</b>
<b>Total comprehensive loss for the period</b>		-	-	<b>(80)</b>	<b>(80)</b>
<b>Shareholder contributions</b>	<b>7</b>	-	<b>26,650</b>	-	<b>26,650</b>
<b>Balance at June 30, 2016</b>		<b>1</b>	<b>238,800</b>	<b>(599)</b>	<b>238,202</b>
Balance at January 1, 2015		1	135,537	(289)	135,249
Total comprehensive loss for the period		-	-	(99)	(99)
Balance at June 30, 2015		1	135,537	(388)	135,150

*See accompanying notes*

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

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Six months ended	
		2016	2015	2016	2015
Cash provided from (used in)					
Operating activities					
Loss for the period		(46)	(77)	(80)	(99)
Adjusted for items not involving a cash flow:					
Amortization of long-term prepayments		102	101	203	202
Accretion of long-term debt		(2)	(1)	(4)	(2)
Changes in non-cash working capital balances	13	10	22	(12)	6
<b>Net cash provided from operating activities</b>		<b>64</b>	<b>45</b>	<b>107</b>	<b>107</b>
Investing activities					
Additions to property, plant and equipment	3	(36,765)	(97,321)	(87,728)	(147,416)
Additions to intangible assets	4	(30)	-	(44)	-
Decrease in investments	5	35,047	49,107	58,644	86,263
Changes in non-cash working capital balances	13	17,408	32,373	(1,506)	43,481
<b>Net cash provided from (used in) investing activities</b>		<b>15,660</b>	<b>(15,841)</b>	<b>(30,634)</b>	<b>(17,672)</b>
Financing activities					
Decrease in long-term debt	6	(52,010)	-	(52,010)	-
Decrease in restricted cash		27,942	15,796	55,887	17,565
Increase in shareholder contributions	7	8,344	-	26,650	-
<b>Net cash (used in) provided from financing activities</b>		<b>(15,724)</b>	<b>15,796</b>	<b>30,527</b>	<b>17,565</b>
Net increase (decrease) in cash and cash equivalents		-	-	-	-
Cash and cash equivalents, beginning of period		-	-	-	-
Cash and cash equivalents, end of period		-	-	-	-
Interest received		558	1,032	1,317	2,237
Interest paid		11,839	8,880	11,840	8,880

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. Labrador Transco is a 100% owned subsidiary of Nalcor Energy (Nalcor). Labrador Transco's head office is located at 500 Columbus Drive, St. John's, Newfoundland and Labrador, A1B 0M6, Canada.

Labrador Transco was formed 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.

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 Standards (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, 2015.

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. The condensed interim financial statements were approved by Labrador Transco's Board of Directors on August 9, 2016.

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

**3. PROPERTY, PLANT AND EQUIPMENT**

<i>(thousands of Canadian dollars)</i>	Project Support Assets	Construction in Progress	Total
Cost			
Balance at January 1, 2015	13,314	311,376	324,690
Additions	(32)	315,458	315,426
Balance at December 31, 2015	13,282	626,834	640,116
<b>Additions</b>	<b>45</b>	<b>89,420</b>	<b>89,465</b>
<b>Balance at June 30, 2016</b>	<b>13,327</b>	<b>716,254</b>	<b>729,581</b>
Depreciation			
Balance at January 1, 2015	3,460	-	3,460
Depreciation	2,874	-	2,874
Balance at December 31, 2015	6,334	-	6,334
<b>Depreciation</b>	<b>1,683</b>	<b>-</b>	<b>1,683</b>
<b>Balance at June 30, 2016</b>	<b>8,017</b>	<b>-</b>	<b>8,017</b>
Carrying value			
Balance at January 1, 2015	9,854	311,376	321,230
Balance at December 31, 2015	6,948	626,834	633,782
<b>Balance at June 30, 2016</b>	<b>5,310</b>	<b>716,254</b>	<b>721,564</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 period ended June 30, 2016, \$6.1 million (December 31, 2015 - \$23.1 million) of borrowing costs were capitalized. The effective interest rate of the debt is 3.80%.

**4. INTANGIBLE ASSETS**

<i>(thousands of Canadian dollars)</i>	Computer Software
Cost	
Balance at January 1, 2015	322
Additions	102
Balance at December 31, 2015	424
<b>Additions</b>	<b>44</b>
<b>Balance at June 30, 2016</b>	<b>468</b>
Amortization	
Balance at January 1, 2015	271
Amortization	102
Balance at December 31, 2015	373
<b>Amortization</b>	<b>54</b>
<b>Balance at June 30, 2016</b>	<b>427</b>
Carrying value	
Balance at January 1, 2015	51
Balance at December 31, 2015	51
<b>Balance at June 30, 2016</b>	<b>41</b>

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

**5. 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 Muskrat Falls/Labrador Transmission Assets Project Finance Agreement (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 MF/LTA PFA. Under the amended MF/LTA 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 June 30, 2016, Labrador Transco's portion was 22% (December 31, 2015 – 24%).

<i>As at (thousands of Canadian dollars)</i>	Year of Maturity	<b>June 30 2016</b>	December 31 2015
\$75.0 million Floating Rate Deposit Note with interest paid at the one-month Canadian Dealer Offer Rate (CDOR) plus 0.38%.	2017	<b>13,556</b>	18,000
\$478.2 million Amortizing Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.38%.	2016	<b>6,070</b>	16,910
\$1,912.7 million Amortizing Fixed Rate Deposit Note with interest paid at a rate of 1.5937% per annum.	2016	<b>24,282</b>	67,642
Long-term investments, end of period		<b>43,908</b>	102,552
Less: redemptions to be received within one year		<b>30,352</b>	87,764
		<b>13,556</b>	14,788

**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	<b>June 30 2016</b>	December 31 2015
Tranche A	143,000	3.63	2013	2029	<b>143,043</b>	156,049
Tranche B	148,500	3.83	2013	2037	<b>148,521</b>	162,024
Tranche C	280,500	3.86	2013	2048	<b>280,552</b>	306,057
Total debentures	572,000				<b>572,116</b>	624,130

In July 2015, Labrador Transco, Muskrat Falls, the MF/LTA Funding Trust and the Collateral Agent executed an amendment to the MF/LTA 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 June 30, 2016, Labrador Transco's cumulative portion of actual debt drawn was 22% (December 31, 2015 - 24%).

**7. SHAREHOLDER'S EQUITY**

**Shareholder Contributions**

<i>As at (thousands of Canadian dollars)</i>	<b>June 30 2016</b>	December 31 2015
Total shareholder contributions	<b>238,800</b>	212,150

During 2016, Nalcor made contributions to Labrador Transco in the amount of \$26.7 million (December 31, 2015 - \$76.6 million).



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

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

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>2016</b>	2015	<b>2016</b>	2015
Finance income				
Interest on investments	<b>(640)</b>	658	<b>(292)</b>	1,487
Other interest income	<b>604</b>	383	<b>1,006</b>	762
	<b>(36)</b>	1,041	<b>714</b>	2,249
Finance expense				
Interest on long-term debt	<b>889</b>	4,439	<b>6,809</b>	8,879
	<b>889</b>	4,439	<b>6,809</b>	8,879
Interest capitalized during construction	<b>(925)</b>	(3,398)	<b>(6,095)</b>	(6,630)
	<b>(36)</b>	1,041	<b>714</b>	2,249
Net finance (income) expense	-	-	-	-

**9. OTHER (INCOME) EXPENSE**

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>2016</b>	2015	<b>2016</b>	2015
Realized foreign exchange loss	<b>12</b>	-	<b>12</b>	-
Unrealized foreign exchange gain	-	-	<b>(3)</b>	-
Other (income) expense	<b>12</b>	-	<b>9</b>	-

**10. FINANCIAL INSTRUMENTS**

**Fair Value**

The estimated fair values of financial instruments as at June 30, 2016 and December 31, 2015 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).

**LABRADOR TRANSMISSION CORPORATION**  
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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 periods ended June 30, 2016 and December 31, 2015.

As at June 30, 2016 and December 31, 2015 the Company did not have any Level 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		June 30, 2016		December 31, 2015	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Investments	2	43,908	43,940	102,552	102,698
Financial liabilities					
Long-term debt	2	572,116	708,805	624,130	731,728

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 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 derivative instruments are valued based on observable commodity future curves, broker quotes or other publicly available data. 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 and currency rates.

**11. 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
Hydro	100% owned subsidiary of Nalcor
Muskrat Falls	100% owned subsidiary of Nalcor
Lower Churchill Management Corporation (LCMC)	100% owned subsidiary of Nalcor
Labrador-Island Link Limited Partnership (LIL LP)	Limited partnership between LIL Holding Corporation and Emera Newfoundland and Labrador Island Link Inc.
MF/LTA Funding Trust	Party to the MF/LTA PFA

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

**12. 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.

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

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- (b) As part of the MF/LTA 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) Outstanding commitments for capital projects total approximately \$251.2 million (December 31, 2015 - \$252.3 million).

**13. SUPPLEMENTARY CASH FLOW INFORMATION**

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>2016</b>	2015	<b>2016</b>	2015
Trade and other receivables	<b>4,025</b>	(3,478)	<b>8,344</b>	2,538
Trade and other payables	<b>13,393</b>	35,873	<b>(9,862)</b>	40,949
Changes in non-cash working capital balances	<b>17,418</b>	32,395	<b>(1,518)</b>	43,487
Related to:				
Operating activities	<b>10</b>	22	<b>(12)</b>	6
Investing activities	<b>17,408</b>	32,373	<b>(1,506)</b>	43,481
	<b>17,418</b>	32,395	<b>(1,518)</b>	43,487