

LABRADOR TRANSMISSION CORPORATION
FINANCIAL STATEMENTS
December 31, 2015

Independent Auditor's Report

To the Shareholder of Labrador Transmission Corporation

We have audited the accompanying financial statements of Labrador Transmission Corporation which comprise the statement of financial position as at December 31, 2015 and the statements of comprehensive loss, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Labrador Transmission Corporation as at December 31, 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants
March 11, 2016

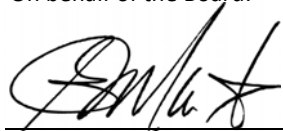
LABRADOR TRANSMISSION CORPORATION
STATEMENT OF FINANCIAL POSITION

<i>As at December 31 (thousands of Canadian dollars)</i>	Notes	2015	2014 (Note 19)
ASSETS			
Current assets			
Restricted cash		214,615	106,032
Current portion of long-term investments	8	87,764	147,832
Trade and other receivables	5	11,787	12,717
Prepayments		404	404
Total current assets		314,570	266,985
Non-current assets			
Property, plant and equipment	6	633,782	321,230
Intangible assets	7	51	51
Long-term investments	8	14,788	76,914
Long-term prepayments		677	1,081
Total assets		963,868	666,261
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	9	128,106	62,910
Non-current liabilities			
Long-term debt	10	624,130	468,102
Total liabilities		752,236	531,012
Shareholder's equity			
Share capital	11	1	1
Shareholder contributions	11	212,150	135,537
Deficit		(519)	(289)
Total equity		211,632	135,249
Total liabilities and equity		963,868	666,261

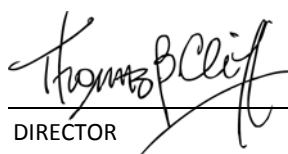
Commitments and contingencies (Note 16)

See accompanying notes

On behalf of the Board:



DIRECTOR



DIRECTOR

LABRADOR TRANSMISSION CORPORATION
STATEMENT OF LOSS AND COMPREHENSIVE LOSS

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	Notes	2015	2014
Operating costs		240	255
Other (income) expense	13	(10)	-
Total comprehensive loss for the year		(230)	(255)

See accompanying notes

LABRADOR TRANSMISSION CORPORATION
STATEMENT OF CHANGES IN EQUITY

<i>(thousands of Canadian dollars)</i>	Notes	Share Capital	Shareholder Contributions	Deficit	Total
Balance at January 1, 2015		1	135,537	(289)	135,249
Total comprehensive loss for the year		-	-	(230)	(230)
Shareholder contributions	11	-	76,613	-	76,613
Balance at December 31, 2015		1	212,150	(519)	211,632
Balance at January 1, 2014		1	107,631	(34)	107,598
Total comprehensive loss for the year		-	-	(255)	(255)
Shareholder contributions	11	-	27,906	-	27,906
Balance at December 31, 2014		1	135,537	(289)	135,249

See accompanying notes

LABRADOR TRANSMISSION CORPORATION
STATEMENT OF CASH FLOWS

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	Notes	2015	2014
Cash provided from (used in)			
Operating activities			
Loss for the year		(230)	(255)
Adjusted for items not involving a cash flow:			
Amortization of long-term prepayments		404	216
Accretion of long-term debt		(5)	(5)
Increase in prepayments		-	(535)
Changes in non-cash working capital balances	18	29	19
Net cash provided from (used in) operating activities		198	(560)
Investing activities			
Additions to property, plant and equipment	6	(312,450)	(194,477)
Additions to intangible assets	7	(102)	(102)
Decrease in investments	8	122,194	171,971
Changes in non-cash working capital balances	18	66,097	31,316
Net cash (used in) provided from investing activities		(124,261)	8,708
Financing activities			
Increase in long-term debt	10	156,033	-
Increase in restricted cash		(108,583)	(36,054)
Increase in shareholder contributions	11	76,613	27,906
Net cash provided from (used in) financing activities		124,063	(8,148)
Net increase (decrease) in cash and cash equivalents		-	-
Cash and cash equivalents, beginning of year		-	-
Cash and cash equivalents, end of year		-	-

Supplementary cash flow information (Note 18)

See accompanying notes

LABRADOR TRANSMISSION CORPORATION

NOTES TO FINANCIAL STATEMENTS

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

2.1 Statement of Compliance and Basis of Measurement

These annual audited financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). Labrador Transco has adopted accounting policies which are based on the IFRS applicable as at December 31, 2015, and include individual IFRS, International Accounting Standards (IAS), and interpretations made by the IFRS Interpretations Committee and the Standing Interpretations Committee.

These annual audited financial statements have been prepared on a historical cost basis. The annual audited financial statements are presented in Canadian Dollars and all values rounded to the nearest thousand, except when otherwise noted. The annual audited financial statements were approved by Labrador Transco's Board of Directors on March 4, 2016.

2.2 Basis of Consolidation

These annual audited financial statements include only the financial statements of Labrador Transco.

Labrador Transco includes the financial statements of investees (including structured entities) only when it has control as defined in IFRS 10 - Consolidated Financial Statements. In accordance with IFRS 10, control is achieved when Labrador Transco:

- has power over the relevant activities of the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect those returns.

The Muskrat Falls/Labrador Transmission Assets Funding Trust (MF/LTA Funding Trust) was formed under the laws of the Province of Newfoundland and Labrador and the federal laws of Canada on November 4, 2013 for the purpose of issuing long-term debentures to the public, which are guaranteed by the Federal Government of Canada, and to on-lend the proceeds to Muskrat Falls and Labrador Transco. The funds will be used for the sole purpose of constructing the Muskrat Falls hydroelectric plant and the LTA as part of Phase 1 of the Lower Churchill Project.

Based on the criteria outlined in IFRS 10, Labrador Transco has determined that it does not have control of the MF/LTA Funding Trust and as such has not included the accounts of the MF/LTA Funding Trust in these annual audited financial statements.

LABRADOR TRANSMISSION CORPORATION
NOTES TO FINANCIAL STATEMENTS

2.3 Restricted Cash

Restricted cash consists of cash held on deposit with a Schedule 1 Canadian Chartered bank and administered by the 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). Restricted cash is measured at cost which approximates fair value.

2.4 Trade and Other Receivables

Trade and other receivables are classified as loans and receivables and are measured at amortized cost using the effective interest method.

2.5 Property, Plant and Equipment

Items of property, plant and equipment are recognized using the cost model and thus are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes materials, labour, contracted services, professional fees and borrowing costs capitalized in accordance with Labrador Transco's accounting policy outlined in Note 2.7. Costs capitalized with the related asset include all those costs directly attributable to bringing the asset into operation.

Property, plant and equipment are not depreciated until assets are substantially complete and ready for their intended use.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Project support assets 4 - 5 years

As use of the property, plant and equipment is directly attributable to the construction of the LTA, related depreciation costs are capitalized as incurred.

2.6 Intangible Assets

Intangible assets that are expected to generate future economic benefit and are measurable, including computer software costs, are capitalized as intangible assets in accordance with IAS 38.

Intangible assets with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. As use of the intangible assets are directly attributable to the construction of the LTA, related amortization costs are capitalized as incurred. The estimated useful life and amortization method are reviewed at the end of each year, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

2.7 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in the Statement of Loss and Comprehensive Loss in the period in which they are incurred.

2.8 Impairment of Non-Financial Assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

LABRADOR TRANSMISSION CORPORATION
NOTES TO FINANCIAL STATEMENTS

Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from non-financial assets.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in Statement of Loss and Comprehensive Loss

2.9 Provisions

A provision is a liability of uncertain timing or amount. A provision is recognized if the Company has a present legal obligation or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. The provision is measured at the present value of the best estimate of the expenditures expected to be required to settle the obligation using a discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. Provisions are re-measured at each Statement of Financial Position date using the current discount rate.

2.10 Revenue Recognition

Revenue is recognized on an accrual basis as earned, when recovery is probable and the amount of revenue can be reliably measured.

2.11 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Lessor accounting

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Lessee accounting

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs (Note 2.7). Contingent rental costs are recognized as operating costs in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased

LABRADOR TRANSMISSION CORPORATION
NOTES TO FINANCIAL STATEMENTS

asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2.12 Net Finance (Income) Expense

For all financial instruments measured at amortized cost and interest bearing financial assets classified as available-for-sale (AFS), interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

2.13 Foreign Currencies

Transactions in currencies other than Labrador Transco's functional currency (foreign currencies) are recognized using the exchange rate in effect at the date of transaction, approximated by the prior month end close rate. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates of exchange in effect at the period end date. Foreign exchange gains and losses are included in the Statement of Loss and Comprehensive Loss as other (income) expense.

2.14 Income Taxes

The Company is exempt from paying income taxes under Section 149(1) (d.2) of the Income Tax Act.

2.15 Financial Instruments

Financial assets and financial liabilities are recognized in the Statement of Financial Position when the Company becomes a party to the contractual provisions of the instrument and are initially measured at fair value. Subsequent measurement is based on classification. Financial instruments are classified into the following specified categories: financial assets at fair value through profit or loss (FVTPL), AFS financial assets, loans and receivables, held-to-maturity investments, financial liabilities at FVTPL, financial instruments used for hedging and other financial liabilities. The classification depends on the nature and purpose of the financial instruments and is determined at the time of initial recognition.

Classification of Financial Instruments

The Company has classified each of its financial instruments into the following categories: loans and receivables, held-to-maturity investments and other financial liabilities.

Restricted cash	Loans and receivables
Trade and other receivables	Loans and receivables
Investments	Held-to-maturity investments
Trade and other payables	Other financial liabilities
Long-term debt	Other financial liabilities

(i) Effective Interest Method

The effective interest method is a method of calculating the amortized cost of a financial instrument and allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income or expense is recognized on an effective interest basis for financial instruments other than those financial assets and liabilities classified at FVTPL.

LABRADOR TRANSMISSION CORPORATION
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Financial Assets

(ii) Loans and Receivables

Trade receivables, loans and other receivables with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(iii) Held-to-Maturity Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment, with interest revenue recognized on an effective yield basis.

Financial Liabilities and Equity Instruments

(iv) Other Financial Liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

2.16 Derecognition of Financial Instruments

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, its retained interest in the asset and any associated liability for amounts it may have to pay is recognized. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, it continues to recognize the financial asset and also recognizes the collateralized borrowing for the proceeds received. The Company derecognizes financial liabilities when, and only when, its obligations are discharged, cancelled or they expire.

2.17 Impairment of Financial Assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- the borrower, more probable than not, entering into bankruptcy or financial re-organization.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

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The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the annual audited 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 including, but not limited to, allocations of costs among entities. Actual results may materially differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is reviewed if the revision affects only that period or future periods.

3.1 Use of Judgment

(i) Intangible Assets

Amounts recorded for amortization are based on the useful lives of the Company's assets. These useful lives are Management's best estimate of the service lives of these assets. Changes to these lives could materially affect the amount of amortization recorded.

(ii) Functional currency

Functional currency was determined by evaluating the primary economic environment in which the Company operates. As the Company enters into transactions in multiple currencies, judgment is used in determining the functional currency. Management considered factors regarding currency of sales, costs incurred, and operating and financing activities and determined the functional currency to be Canadian Dollars.

(iii) Consolidation

Management applies its judgment when determining whether to consolidate structured entities in accordance with the criteria outlined in IFRS 10. Management has determined that Labrador Transco should not consolidate the MF/LTA Funding Trust.

3.2 Use of Estimates

(i) Property, Plant and Equipment

Amounts recorded for depreciation are based on the useful lives of the Company's assets. The useful lives of property, plant and equipment are determined by independent specialists and reviewed annually by the Company. These useful lives are Management's best estimate of the service lives of these assets. Changes to these lives could materially affect the amount of depreciation recorded.

4. FUTURE CHANGES IN ACCOUNTING POLICIES

Labrador Transco has not applied the following new and revised IFRS that have been issued but are not yet effective:

Amendments to IAS 1	Disclosure Initiative ¹
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization ¹
IFRS 9	Financial Instruments ²
IFRS 15	Revenue from Contracts with Customers ²
IFRS 16	Leases ³

¹Effective for annual periods beginning on or after January 1, 2016, with earlier application permitted.

²Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

³Effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

4.1 Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 give some guidance on how to apply the concept of materiality in practice. Management does not anticipate that the application of these amendments to IAS 1 will have a material impact on the Company's annual audited financial statements.

4.2 Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization

The amendments to IAS 16 prohibit entities from using revenue-based depreciation methods for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- When the intangible asset is expressed as a measure of revenue, or
- When it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after January 1, 2016. Currently, the Company uses the straight-line methods for depreciation and amortization of its property, plant and equipment, and intangible assets respectively.

Management believes that the straight-line method is the most appropriate method to reflect the consumption of economic benefit inherent in the respective assets and accordingly does not anticipate that the application of these amendments to IAS 16 and IAS 38 will have a material impact on the Company's annual audited financial statements.

4.3 IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include:

- a) impairment requirements for financial assets; and
- b) limited amendments to the classification and measurement requirements by introducing a fair value through other comprehensive income (FVTOCI) measurement category for certain simple debt instruments.

Key Requirements of IFRS 9:

- All recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortized cost or fair value. Specifically, debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt

instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt instruments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- With regard to the measurement of financial liabilities designated as at FVTPL, IFRS 9 requires that the amount of change in the fair value of the financial liability attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Management anticipates that the application of IFRS 9 in the future may have a material impact on the amounts reported and disclosures made in the Company's annual audited financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until Management performs a detailed review.

4.4 IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a five-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

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Management anticipates that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Company's annual audited financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until Management performs a detailed review.

4.5 IFRS 16 Leases

On January 13, 2016, the IASB issued IFRS 16 that provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS 17 Leases and its associated interpretive guidance. Significant changes were made to lessee accounting with the distinction between operating and finance leases removed and assets and liabilities recognized in respect of all leases (subject to limited exceptions for short-term leases and leases of low value assets). In contrast, IFRS 16 does not include significant changes to the requirements for lessors. IFRS 16 is effective January 1, 2019 with earlier application permitted for companies that have also adopted IFRS 15 Revenue from Contracts with Customers.

Management anticipates that the application of IFRS 16 in the future may have a material impact on the amounts reported and disclosures made in the Company's annual audited financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until Management performs a detailed review.

5. TRADE AND OTHER RECEIVABLES

<i>As at December 31 (thousands of Canadian dollars)</i>	2015	2014
Receivables due from related parties	9,079	5,791
Other receivables	2,708	6,926
	11,787	12,717

Other receivables are comprised of input tax credits and accrued interest.

6. PROPERTY, PLANT AND EQUIPMENT

<i>(thousands of Canadian dollars)</i>	Project support assets	Construction in progress	Total
Cost			
Balance at January 1, 2014	7,876	119,928	127,804
Additions	5,438	191,448	196,886
Balance at December 31, 2014	13,314	311,376	324,690
Additions	(32)	315,458	315,426
Balance at December 31, 2015	13,282	626,834	640,116
Depreciation			
Balance at January 1, 2014	1,143	-	1,143
Depreciation	2,317	-	2,317
Balance at December 31, 2014	3,460	-	3,460
Depreciation	2,874	-	2,874
Balance at December 31, 2015	6,334	-	6,334
Carrying value			
Balance at January 1, 2014	6,733	119,928	126,661
Balance at December 31, 2014	9,854	311,376	321,230
Balance at December 31, 2015	6,948	626,834	633,782

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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. During 2015, \$23.1 million (2014 - \$11.6 million) of borrowing costs were capitalized. The effective interest rate of the debt is 3.80%.

7. INTANGIBLE ASSETS

<i>(thousands of Canadian dollars)</i>	Computer Software
Cost	
Balance at January 1, 2014	220
Additions	102
Balance at December 31, 2014	322
Additions	102
Balance at December 31, 2015	424
Amortization	
Balance at January 1, 2014	179
Amortization	92
Balance at December 31, 2014	271
Amortization	102
Balance at December 31, 2015	373
Carrying Value	
Balance at January 1, 2014	41
Balance at December 31, 2014	51
Balance at December 31, 2015	51

Intangible assets consist of computer software costs, amortized on a straight-line basis over their finite useful lives of one year.

8. 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 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 December 31, 2015, Labrador Transco's portion was 24% (2014 –18%).

<i>As at December 31 (thousands of Canadian dollars)</i>	Year of Maturity	2015	2014
\$75.0 million Floating Rate Deposit Note, with interest paid at the one-month Canadian Dealer Offer Rate (CDOR) plus 0.38%.	2017	18,000	13,500
\$478.2 million Amortizing Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.38%.	2016	16,910	42,249
\$1,912.7 million Amortizing Fixed Rate Deposit Note, with interest paid at a rate of 1.5937% per annum.	2016	67,642	168,997
		102,552	224,746
Less: payments to be received within one year		87,764	147,832
Total long-term investments		14,788	76,914

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9. TRADE AND OTHER PAYABLES

<i>As at December 31 (thousands of Canadian dollars)</i>	2015	2014
Trade payables	126,121	56,871
Payables due to related parties	12	4,552
Accrued interest payable	1,973	1,480
Other payables	-	7
	128,106	62,910

10. LONG-TERM DEBT

The following table represents the value of long-term debt measured at amortized cost as at December 31:

<i>(thousands of Canadian dollars)</i>	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	2015	2014
Tranche A	156,000	3.63	2013	2029	156,049	117,039
Tranche B	162,000	3.83	2013	2037	162,024	121,519
Tranche C	306,000	3.86	2013	2048	306,057	229,544
Total debentures	624,000				624,130	468,102

On November 29, 2013, Labrador Transco entered into the PFA with the MF/LTA Funding Trust and Muskrat Falls. Under the terms and conditions of the PFA, the MF/LTA Funding Trust agreed to provide a non-revolving credit facility in the amount of \$2.6 billion available in three tranches (Tranches A, B and C). The purpose of the MF/LTA Funding Trust is to issue long-term debentures to the public, which debt is guaranteed by the Government of Canada and to on-lend the proceeds to Muskrat Falls and Labrador Transco. Muskrat Falls and Labrador Transco are both jointly and severally liable for the full amount of the credit facility.

On December 13, 2013, all three tranches of the construction facility were drawn down by way of a single advance of \$2.6 billion. Under the terms of the PFA, the \$2.6 billion advance is held in an account administered by a Collateral Agent. The Company draws funds from this account on a monthly basis in accordance with procedures set out in the PFA.

The role of the Collateral Agent is to act on behalf of the lending parties, including the MF/LTA Funding Trust and the Government of Canada. The Collateral Agent oversees the lending and security arrangements, the various project accounts and the compliance with covenants.

As security for these debt obligations, Labrador Transco has granted to the Collateral Agent first ranking liens on all present and future assets. On the date of the release of the final funding request to the Collateral Agent, sinking funds are required to be set up for each of the three tranches to be held in a sinking fund account under the control of the Collateral Agent.

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 December 31, 2015, Labrador Transco's cumulative portion of actual debt drawn was 24% (2014 -18%).

Sinking fund instalments due for the next five years are as follows:

<i>(thousands of Canadian dollars)</i>	2016	2017	2018	2019	2020
Sinking fund instalments	-	-	7,091	14,182	14,182

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11. SHAREHOLDER'S EQUITY

11.1 Share Capital

<i>As at December 31 (thousands of Canadian dollars)</i>	2015	2014
Common shares without nominal or par value		
Authorized - unlimited		
Issued and outstanding - 100	1	1

11.2 Shareholder Contributions

<i>As at December 31 (thousands of Canadian dollars)</i>	2015	2014
Total shareholder contributions	212,150	135,537

During 2015, Nalcor contributed cash in the amount of \$76.6 million (2014 - \$27.9 million). Included in this amount was the second instalment payment to meet pre-funded equity requirements associated with the PFA.

12. NET FINANCE (INCOME) EXPENSE

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	2015	2014
Finance income		
Interest on investments	4,826	5,043
Other interest income	1,928	1,116
	6,754	6,159
Finance expense		
Interest on long-term debt	29,889	17,769
	29,889	17,769
Interest capitalized during construction	(23,135)	(11,610)
	6,754	6,159
Net finance (income) expense	-	-

Due to the PFA amendment in July 2015, cumulative retroactive adjustments were made in the current year to net (income) expense to reflect Labrador Transco's ratable share of the actual debt drawn.

13. OTHER (INCOME) EXPENSE

Other (income) expense consists of foreign exchange gains and losses associated with construction costs of the LTA. Foreign exchange gains and losses as at December 31, 2015, was \$0.01 million (2014 - \$nil).

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

14.1 Fair Value

The estimated fair values of financial instruments as at December 31, 2015 and 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.

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NOTES TO FINANCIAL STATEMENTS

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 years ended December 31, 2015 and 2014.

As at December 31, 2015, the Company did not have any level 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		2015		2014	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Investments	2	102,552	102,698	224,746	224,780
Financial liabilities					
Long-term debt	2	624,130	731,728	468,102	550,911

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.

14.2 Risk Management

The Company is exposed to certain credit, liquidity and market price risks through its operating, financing and investing activities. Financial risk is managed in accordance with a Board-approved policy, which outlines the objectives and strategies for the management of financial risk, including the use of derivative contracts. Permitted financial risk management strategies are aimed at minimizing the volatility of the Company's expected future cash flows.

Credit Risk

The Company's expected future cash flows are exposed to credit risk through financing activities, based on the risk of non-performance by counterparties to its financial instruments. Credit risk on restricted cash and investments is minimal, as the Company's deposits and investments are held by a Canadian Schedule 1 Chartered Bank with a rating of AA- (Standard and Poor's). The degree of exposure to credit risk on trade and other receivables and advances is determined by the financial capacity and stability of the counterparties whereby the maximum risk is represented by their carrying value on the Statement of Financial Position at the reporting date.

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Liquidity Risk

The Company is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. Liquidity risk management activities are directed at ensuring cash is available to meet those obligations as they become due. Short-term liquidity is provided through restricted cash on hand and shareholder contributions. The Company can access the funds drawn down from the Muskrat/LTA Construction Facility and shareholders contributions for the payment of construction costs as well as interest payments.

The following are the contractual maturities of the Company's financial liabilities, including principal, sinking fund and interest, as at December 31, 2015:

<i>(thousands of Canadian dollars)</i>	<1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	128,106	-	-	-	128,106
Long-term debt (including interest and sinking fund)	23,679	54,449	75,722	1,067,817	1,221,667
	151,785	54,449	75,722	1,067,817	1,349,773

Market Risk

In the course of carrying out its operating, financing and investing activities, the Company is exposed to possible market price movements that could impact expected future cash flow and the carrying value of certain financial assets and liabilities.

Interest Rates

Changes in prevailing interest rates will impact the fair value of financial assets and liabilities. Expected future cash flows from these assets and liabilities are also impacted in certain circumstances.

Foreign Currency and Commodity Exposure

The Company does not hold any financial instruments whose value would vary due to changes in a commodity price or fluctuations in foreign currency exchange rates. Cash flow exposure to commodity price and foreign exchange risk arises primarily through investing activities, most notably US dollar denominated capital expenditures, and regular procurement activities. Exposure arising from capital expenditures is evaluated on a case by case basis. Where possible, contracts are denominated in Canadian dollars.

15. 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 (LCMC)	100% owned subsidiary of Nalcor
Labrador-Island Link Limited Partnership (LIL LP)	Limited partnership between Nalcor and Emera Newfoundland and Labrador Holdings Inc.
Hydro	100% owned subsidiary of Nalcor

- (a) As at December 31, 2015, Labrador Transco has related party payables totaling \$0.01 million (2014 - \$4.6 million) with Nalcor and related party receivables totaling \$9.1 million (2014 - \$5.8 million) with LIL LP, Muskrat Falls, and LCMC. These payables/receivables consist of various intercompany operating and construction costs.

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(b) As at December 31, 2015, Labrador Transco has received contributions from Nalcor totaling \$212.2 million (2014 - \$135.5 million). Included in these contributions are two instalment payments to meet pre-funded equity requirements associated with the PFA. Contributions include cash, property, plant and equipment and associated liabilities related to the construction of the LTA.

16. 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 December 31, 2015, Labrador Transco had outstanding commitments for construction costs related to the LTA of \$252.3 million (2014 - \$509.7 million).

17. CAPITAL MANAGEMENT

Long-term capital includes share capital, shareholder contributions and net deficit. The Company's objectives for managing capital are to maintain its ability to continue as a going concern and to ensure timely payment of its contractual obligations as they relate to the construction of the LTA. Labrador Transco's future requirements for capital are expected to increase commensurate with progress on the construction. During this time, it is expected that proceeds from the Muskrat/LTA Construction Facility and shareholder contributions will be sufficient to fund the development of the LTA. Additional requirements will be funded entirely through shareholder contributions. Nalcor, as well as the Province of Newfoundland and Labrador, have provided guarantees of equity support in relation to the construction of the LTA. These guarantees, together with the proceeds from long-term debt will ensure sufficient funds are available to finance construction.

18. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	2015	2014
Trade and other receivables	930	(12,615)
Trade and other payables	65,196	43,950
Changes in non-cash working capital balances	66,126	31,335
Related to:		
Operating	29	19
Investing	66,097	31,316
	66,126	31,335
Interest received	6,766	6,132
Interest paid	21,130	17,044

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19. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the basis of presentation adopted during the current reporting period. The changes have been summarized as follows:

<i>(thousands of Canadian dollars)</i>	Previously Reported	Long-term investments	Intangible assets	Reclassified balance at December 31, 2014
Current portion of long-term investments	-	147,832	-	147,832
Property, plant and equipment	321,281	-	(51)	321,230
Intangible assets	-	-	51	51
Long-term investments	224,746	(147,832)	-	76,914