

MUSKRAT FALLS CORPORATION
CONDENSED INTERIM FINANCIAL STATEMENTS
September 30, 2015
(Unaudited)

MUSKRAT FALLS CORPORATION
STATEMENT OF FINANCIAL POSITION
(Unaudited)

<i>As at (thousands of Canadian dollars)</i>	Notes	September 30 2015	December 31 2014
ASSETS			
Current assets			
Restricted cash		557,207	537,949
Current portion of long-term investments	6	371,634	673,457
Current portion of advances	7	74,875	69,184
Trade and other receivables	4	17,362	21,939
Prepayments		3,254	3,254
Total current assets		1,024,332	1,305,783
Non-current assets			
Property, plant and equipment	5	1,943,841	1,337,576
Long-term investments	6	65,681	350,386
Advances	7	1,142	33,245
Long-term prepayments		5,882	8,322
Total assets		3,040,878	3,035,312
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Trade and other payables	8	359,385	229,783
Non-current liabilities			
Long-term debt	9	1,950,411	2,132,466
Total liabilities		2,309,796	2,362,249
Shareholder's equity			
Share capital		1	1
Shareholder contributions	10	745,200	687,464
Reserves		(10,856)	(11,486)
Deficit		(3,263)	(2,916)
Total shareholder's equity		731,082	673,063
Total liabilities and shareholder's equity		3,040,878	3,035,312

Commitments and contingencies (Note 14)

See accompanying notes

MUSKRAT FALLS CORPORATION
STATEMENT OF LOSS AND COMPREHENSIVE INCOME
(Unaudited)

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2015	2014	2015	2014
Operating costs	122	(28)	347	264
(Loss) income for the period	(122)	28	(347)	(264)
Other comprehensive income for the period	210	210	630	630
Total comprehensive income for the period	88	238	283	366

MUSKRAT FALLS CORPORATION
STATEMENT OF CHANGES IN EQUITY
(Unaudited)

<i>(thousands of Canadian dollars)</i>	Notes	Share Capital	Shareholder Contributions	Reserves	Deficit	Total
Balance at January 1, 2015		1	687,464	(11,486)	(2,916)	673,063
Loss for the period		-	-	-	(347)	(347)
Change in fair value of cash flow hedges		-	-	630	-	630
Total comprehensive income for the period		-	-	630	(347)	283
Shareholder contributions	10	-	57,736	-	-	57,736
Balance at September 30, 2015		1	745,200	(10,856)	(3,263)	731,082
Balance at January 1, 2014		1	660,786	(12,325)	(1,851)	646,611
Loss for the period		-	-	-	(264)	(264)
Change in fair value of cash flow hedges		-	-	630	-	630
Total comprehensive income for the period		-	-	630	(264)	366
Balance at September 30, 2014		1	660,786	(11,695)	(2,115)	646,977

See accompanying notes

MUSKRAT FALLS 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		(122)	28	(347)	(264)
Adjusted for items not involving a cash flow:					
Amortization of long-term prepayments		813	1,198	2,440	1,198
Accretion of long-term debt	9	(5)	(6)	(16)	(17)
Reserves amortized to profit or loss		210	210	630	630
Decrease (increase) in advances	7	10,315	-	26,412	(87,429)
Changes in non-cash working capital balances	15	61,159	65,967	134,179	155,652
Net cash provided from operating activities		72,370	67,397	163,298	69,770
Investing activities					
Additions to property, plant and equipment	5	(256,513)	(190,497)	(606,265)	(435,358)
Decrease in investments	6	193,552	161,263	586,528	590,320
Net cash (used in) provided from investing activities		(62,961)	(29,234)	(19,737)	154,962
Financing activities					
Decrease in long-term debt	9	(182,039)	-	(182,039)	-
Decrease (increase) in restricted cash		114,894	(38,163)	(19,258)	(224,732)
Increase in shareholder contributions	10	57,736	-	57,736	-
Net cash used in financing activities		(9,409)	(38,163)	(143,561)	(224,732)
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 15)

See accompanying notes

MUSKRAT FALLS CORPORATION
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

1. DESCRIPTION OF BUSINESS

Muskrat Falls Corporation (Muskrat Falls or the Company) was incorporated on November 13, 2013 under the laws of Newfoundland and Labrador to design, develop, construct, finance and operate the Muskrat Falls hydroelectric facility rated at 824 megawatts. Muskrat Falls' head office is located in St. John's, Newfoundland and Labrador.

Muskrat Falls is a 100% owned subsidiary of Nalcor Energy (Nalcor).

Muskrat Falls has entered into a power purchase agreement (PPA) with Newfoundland and Labrador Hydro (Hydro) for the sale of energy and capacity from the Muskrat Falls hydroelectric plant until January 1, 2068. Muskrat Falls has also entered into the Generator Interconnection Agreement (GIA) with Hydro and Labrador Transmission Corporation (Labrador Transco) which governs the development and operation of the Labrador Transmission Assets connecting the Muskrat Falls plant to the existing hydroelectric facility in Churchill Falls. Under the terms of the GIA, Muskrat Falls is required to pay for all costs associated with the Labrador Transmission Assets. Under the terms of the PPA, Muskrat Falls will recover all costs associated with the Muskrat Falls hydroelectric facility as well as the costs incurred by Muskrat Falls under the GIA. Hydro's obligation to pay for the costs under the PPA is absolute, non-conditional and irrevocable.

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 Muskrat Falls' 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 Muskrat Falls hydroelectric facility. 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:

	September 30	December 31
	2015	2014
<i>(thousands of Canadian dollars)</i>		
Receivables due from related parties	3,736	1,896
Other receivables	13,626	20,043
	17,362	21,939

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

MUSKRAT FALLS CORPORATION
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

5. PROPERTY, PLANT AND EQUIPMENT

Capitalized costs related to the construction of the Muskrat Falls hydroelectric facility are shown in the table below:

<i>(thousands of Canadian dollars)</i>	January 1 2015	Additions	Accumulated Depreciation	September 30 2015
Project support assets	152,725	2,617	34,100	121,242
Construction in progress	1,184,851	637,748	-	1,822,599
	1,337,576	640,365	34,100	1,943,841

Capitalized Borrowing Costs

The construction of the Muskrat Falls hydroelectric facility 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, \$38.7 million (December 31, 2014 - \$53.1 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 Labrador Transco, 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, Muskrat Falls, Labrador Transco, 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 Muskrat Falls recognizes its ratable share of these investments, which is based on its cumulative portion of actual debt drawn for the construction of the Muskrat Falls hydroelectric facility. As of September 30, 2015, Muskrat Falls' portion was 75% (December 31, 2014 – 82%).

Details on the investments are as follows:

<i>(thousands of Canadian dollars)</i>	September 30 2015	December 31 2014
\$75.0 million Floating Rate Deposit Note, with interest paid at the one-month Canadian Dealer Offer Rate (CDOR) plus 0.38%.	56,250	61,500
\$478.2 million Amortizing Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.38%.	76,213	192,469
\$1,912.7 million Amortizing Fixed Rate Deposit Note, with interest paid at a rate of 1.5937% per annum.	304,852	769,874
	437,315	1,023,843
Less: payments to be received within one year	371,634	673,457
Total long-term investments	65,681	350,386

MUSKRAT FALLS CORPORATION
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

7. ADVANCES

Advances consist of deposits paid to a contractor on a long-term construction contract in relation to the Muskrat Falls hydroelectric facility. Advances are secured by a letter of credit from a Canadian Schedule 1 Chartered bank.

The composition of advances is as follows:

	September 30	December 31
	2015	2014
<i>(thousands of Canadian dollars)</i>		
Total advances	76,017	102,429
Less: current portion	74,875	69,184
Total long-term advances	1,142	33,245

8. TRADE AND OTHER PAYABLES

The composition of trade and other payables is as follows:

	September 30	December 31
	2015	2014
<i>(thousands of Canadian dollars)</i>		
Trade payables	328,257	213,429
Payables due to related parties	6,462	9,612
Accrued interest	24,666	6,742
	359,385	229,783

9. LONG-TERM DEBT

Details of the long-term debt are as follows:

	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	September 30	December 31
					2015	2014
<i>(thousands of Canadian dollars)</i>						
Tranche A	487,500	3.63	2013	2029	487,655	533,179
Tranche B	506,250	3.83	2013	2037	506,325	553,584
Tranche C	956,250	3.86	2013	2048	956,431	1,045,703
Total debentures	1,950,000				1,950,411	2,132,466

In July 2015, Muskrat Falls, Labrador Transco, the MF/LTA Funding Trust and the Collateral Agent executed an amendment to the PFA. Under the amendment, Muskrat Falls continues to be jointly and severally liable for the total credit facility, however Muskrat Falls' portion of the ratable share is based on its cumulative portion of actual debt drawn for the construction of the Muskrat Falls hydroelectric facility. As of September 30, 2015, Muskrat Falls' cumulative portion of actual debt drawn was 75% (December 31, 2014 – 82%).

10. SHAREHOLDER'S EQUITY

Shareholder Contributions

	September 30	December 31
	2015	2014
<i>(thousands of Canadian dollars)</i>		
Total shareholder contributions	745,200	687,464

During 2015, Nalcor made contributions to Muskrat Falls totaling \$57.7 million (December 31, 2014 - nil). These contributions were used to fund construction activities of the Muskrat Falls hydroelectric facility.

MUSKRAT FALLS CORPORATION
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

11. NET FINANCE (INCOME) EXPENSE

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2015	2014	2015	2014
Finance income				
Interest on investments	(655)	5,307	6,117	18,345
Other interest income	867	1,395	3,398	3,440
	212	6,702	9,515	21,785
Finance expense				
Interest on long-term debt	7,802	20,703	48,249	60,720
Interest capitalized during construction	(7,590)	(14,001)	(38,734)	(38,935)
	212	6,702	9,515	21,785
Net finance (income) expense	-	-	-	-

12. FINANCIAL INSTRUMENTS

12.1 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 Muskrat Falls might receive or incur in actual market transactions.

As a significant number of Muskrat Falls' assets and liabilities do not meet the definition of a financial instrument, the fair value estimates below do not reflect the fair value of Muskrat Falls 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.

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	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	557,207	557,207	537,949	537,949
Trade and other receivables	1	17,362	17,362	21,939	21,939
Investments	2	437,315	438,059	1,023,843	1,023,996
Advances	2	76,017	76,017	102,429	102,429
Financial liabilities					
Trade and other payables	1	359,385	359,385	229,783	229,783
Long-term debt	2	1,950,411	2,306,313	2,132,466	2,509,704

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.

13. RELATED PARTY TRANSACTIONS

Muskrat Falls 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 Muskrat Falls transacts are as follows:

Related Party	Relationship
Nalcor	100% shareholder of Muskrat Falls
Labrador Transco	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, Muskrat Falls has related party payables of \$6.5 million (December 31, 2014 - \$9.6 million) and related party receivables for \$3.7 million (December 31, 2014 - \$1.9 million). These payables/receivables consist of various intercompany operating and construction costs.
- (b) As at September 30, 2015, Muskrat Falls has received contributions from Nalcor totaling \$745.2 million (December 31, 2014 - \$687.5 million). Contributions include cash, property, plant and equipment, associated advances and liabilities related to the construction of the Muskrat Falls hydroelectric facility.

14. COMMITMENTS AND CONTINGENCIES

- (a) Muskrat Falls has entered into the GIA with Labrador Transco and Hydro, whereby Muskrat Falls has committed to design, construct, operate and maintain the Muskrat Falls hydroelectric facility, and provide such other services as agreed to ensure safe and reliable transmission of electricity.
- (b) As part of the PFA, Muskrat Falls has pledged its present and future assets as security to the Collateral Agent.
- (c) Muskrat Falls 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 Muskrat Falls' 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.

MUSKRAT FALLS CORPORATION

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(d) As at September 30, 2015, Muskrat Falls had outstanding commitments for construction costs related to the Muskrat Falls hydroelectric facility of \$1,435.9 million (December 31, 2014 - \$1,422.7 million).

15. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2015	2014	2015	2014
Trade and other receivables	(7,083)	17,873	4,577	(7,621)
Prepayments	-	-	-	489
Trade and other payables	68,242	48,094	129,602	162,784
Changes in non-cash working capital balances	61,159	65,967	134,179	155,652
Interest received	289	6,676	9,651	22,714
Interest paid	2	-	40,453	37,192

16. COMPARATIVE FIGURES

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