

MUSKRAT FALLS CORPORATION
CONDENSED INTERIM FINANCIAL STATEMENTS
March 31, 2015
(Unaudited)

DIRECTORS

KEN MARSHALL
President – Atlantic Region
Rogers Communications

EDMUND MARTIN
President and Chief Executive Officer

JOHN QUACOE
Professor
Faculty of Engineering and Applied Science
Memorial University of Newfoundland

RICHARD DAW
Chartered Accountant

GERALD SHORTALL
Chartered Accountant
Corporate Director

OFFICERS

KEN MARSHALL
Chairperson

EDMUND MARTIN
President and Chief Executive Officer

DERRICK STURGE
Vice President, Finance and Chief Financial Officer

GILBERT BENNETT
Vice President, Lower Churchill Project

WAYNE CHAMBERLAIN
General Counsel and Corporate Secretary

PETER HICKMAN
Assistant Corporate Secretary

JAMES MEANEY
General Manager, Finance

AUBURN WARREN
General Manager, Commercial, Treasury and Risk

HEAD AND CORPORATE OFFICE

P.O. Box 15000, Stn. A
Hydro Place, 500 Columbus Drive
St. John's, NL
Canada A1B 0M4

MUSKRAT FALLS CORPORATION
STATEMENT OF FINANCIAL POSITION
(Unaudited)

<i>As at (thousands of Canadian dollars)</i>	Notes	March 31 2015	December 31 2014
ASSETS			
Current assets			
Restricted cash	3	582,077	537,949
Current portion of advances	7	88,172	69,184
Trade and other receivables	4	12,155	21,939
Prepayments		3,254	3,254
Total current assets		685,658	632,326
Non-current assets			
Property, plant and equipment	5	1,471,124	1,337,576
Long-term investments	6	854,578	1,023,843
Advances	7	4,861	33,245
Long-term prepayments		7,509	8,322
Total assets		3,023,730	3,035,312
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Trade and other payables		218,074	229,783
Non-current liabilities			
Long-term debt	8	2,132,461	2,132,466
Total liabilities		2,350,535	2,362,249
Shareholder's equity			
Share capital		1	1
Shareholder contributions		687,464	687,464
Reserves		(11,276)	(11,486)
Deficit		(2,994)	(2,916)
Total shareholder's equity		673,195	673,063
Total liabilities and shareholder's equity		3,023,730	3,035,312

Commitments and contingencies (Note 12)

See accompanying notes

MUSKRAT FALLS CORPORATION
STATEMENT OF COMPREHENSIVE INCOME
(Unaudited)

	Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	2015	2014
Operating costs	(78)	(32)
Loss for the period	(78)	(32)
Other comprehensive income for the period	210	210
Total comprehensive income for the period	132	178

See accompanying notes

MUSKRAT FALLS CORPORATION
STATEMENT OF CHANGES IN EQUITY
(Unaudited)

<i>(thousands of Canadian dollars)</i>	Share Capital	Contributed Capital	Reserves	Deficit	Total
Balance at January 1, 2015	1	687,464	(11,486)	(2,916)	673,063
Loss for the period	-	-	-	(78)	(78)
Change in fair value of cash flow hedges	-	-	210	-	210
Loss for the period, being total comprehensive income for the period	-	-	210	(78)	132
Balance at March 31, 2015	1	687,464	(11,276)	(2,994)	673,195
Balance at January 1, 2014	1	660,786	(12,325)	(1,851)	646,611
Loss for the period	-	-	-	(32)	(32)
Change in fair value of cash flow hedges	-	-	210	-	210
Loss for the period, being total comprehensive income for the period	-	-	210	(32)	178
Balance at March 31, 2014	1	660,786	(12,115)	(1,883)	646,789

See accompanying notes

MUSKRAT FALLS CORPORATION
STATEMENT OF CASH FLOWS
(Unaudited)

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Notes	Three months ended	
		2015	2014
Cash provided from (used in)			
Operating activities			
Loss for the period		(78)	(32)
Adjusted for items not involving a cash flow:			
Amortization of long-term prepayments		813	-
Accretion of long-term debt		(5)	(6)
Reserves amortized to profit or loss		210	210
Changes in non-cash working capital balances	13	(1,925)	58,974
Decrease (increase) in advances	7	9,396	(87,429)
Net cash provided from (used in) operating activities		8,411	(28,283)
Investing activities			
Additions to property, plant and equipment	5	(133,548)	(112,371)
Decrease in long-term investments	6	169,265	195,560
Net cash provided from investing activities		35,717	83,189
Financing activities			
Increase in restricted cash	3	(44,128)	(54,906)
Net cash used in financing activities		(44,128)	(54,906)
Net change in cash and cash equivalents		-	-
Cash and cash equivalents, beginning of period		-	-
Cash and cash equivalents, end of period		-	-

Supplementary cash flow information (Note 13)

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 hydro-electric 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 (PFA).

4. TRADE AND OTHER RECEIVABLES

The composition of trade and other receivables is as follows:

	March 31	December 31
	2015	2014
<i>(thousands of Canadian dollars)</i>		
Receivables due from related parties	2,487	1,896
Other receivables	9,668	20,043
	12,155	21,939

Other receivables are comprised primarily of input tax credits and a small amount of 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 hydro-electric facility are shown in the table below:

<i>(thousands of Canadian dollars)</i>	Balance, January 1, 2015	Additions	Accumulated Depreciation	Balance, March 31, 2015
Project support assets	152,725	134	11,185	141,674
Construction in progress	1,184,851	144,599	-	1,329,450
	1,337,576	144,733	11,185	1,471,124

Capitalized Borrowing Costs

The construction of the Muskrat Falls hydro-electric facility was sanctioned in December 2012. The construction is being financed through the issuance of long-term debt and contributed capital. For the three months ended March 31, 2015, \$15.2 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. Muskrat Falls recognizes its rateable share of 82% of these investments. Muskrat Falls' rateable share was determined based on the percentage of the proceeds of long-term debt allocated for the construction of the Muskrat Falls hydro-electric facility.

Details on the investments are as follows:

<i>(thousands of Canadian dollars)</i>	March 31 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%.	61,500	61,500
\$478.2 million Amortizing Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.38%.	158,616	192,469
\$1,912.7 million Amortizing Fixed Rate Deposit Note, with interest paid at a rate of 1.5937% per annum.	634,462	769,874
	854,578	1,023,843

7. ADVANCES

Advances consist of deposits paid to a contractor on a long-term construction contract in relation to the Muskrat Falls hydroelectric facility.

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

8. LONG-TERM DEBT

Details of the long-term debt are as follows:

	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	March 31 2015	December 31 2014
<i>(thousands of Canadian dollars)</i>						
Tranche A	533,000	3.63	2013	2029	533,176	533,179
Tranche B	553,500	3.83	2013	2037	553,584	553,584
Tranche C	1,045,500	3.86	2013	2048	1,045,701	1,045,703
Total debentures	2,132,000				2,132,461	2,132,466

9. NET FINANCE INCOME AND EXPENSE

	Three months ended 2015	2014
<i>For the period ended March 31 (thousands of Canadian dollars)</i>		
Finance income		
Interest on investments	3,773	6,921
Other interest income	1,234	822
	5,007	7,743
Finance expense		
Interest on long-term debt	(20,226)	(20,436)
Interest capitalized during construction	15,219	12,693
	(5,007)	(7,743)
Net finance income and expense	-	-

10. FINANCIAL INSTRUMENTS

10.1 Fair Value

The estimated fair values of financial instruments as at March 31, 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).

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

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 March 31, 2015 and the year ended December 31, 2014.

As of March 31, 2015 and December 31, 2014, the Company did not have any level 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		March 31, 2015		December 31, 2014	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Restricted cash	1	582,077	582,077	537,949	537,949
Trade and other receivables	1	12,155	12,155	21,939	21,939
Investments	2	854,578	856,278	1,023,843	1,023,996
Advances	2	93,033	93,033	102,429	102,429
Financial liabilities					
Trade and other payables	1	218,074	218,074	229,783	229,783
Long-term debt	2	2,132,461	2,673,779	2,132,466	2,509,704

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

11. 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
Muskrat Falls/Labrador Transmission Assets 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

12. COMMITMENTS AND CONTINGENCIES

- 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 hydro-electric facility, and provide such other services as agreed to ensure safe and reliable transmission of electricity.
- As part of the PFA, Muskrat Falls has pledged its present and future assets as security to the Collateral Agent.
- 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

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

(d) As at March 31, 2015, Muskrat Falls had outstanding commitments for construction costs related to the Muskrat Falls hydro-electric facility of \$1,319.7 million (December 31, 2014 - \$1,422.7 million).

13. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Three months ended	
	2015	2014
Trade and other receivables	9,784	(25,552)
Prepayment	-	6
Trade and other payables	(11,709)	84,520
Changes in non-cash working capital balances	(1,925)	58,974
Interest received	5,065	7,413
Interest paid	2	1