

**MUSKRAT FALLS CORPORATION**  
**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**September 30, 2014**  
**(Unaudited)**

**DIRECTORS**

KEN MARSHALL  
Acting Chairperson  
President - Atlantic Region  
Rogers Cable

ED MARTIN  
President and Chief Executive Officer

JOHN QUAICOE  
Professor  
Faculty of Engineering and Applied Science  
Memorial University of Newfoundland and Labrador

RICHARD DAW  
Chartered Accountant

GERALD SHORTALL  
Chartered Accountant  
Corporate Director

**OFFICERS**

KEN MARSHALL  
Acting Chairperson  
President - Atlantic Region  
Rogers Cable

ED MARTIN  
President and Chief Executive Officer

GILBERT BENNETT  
Vice President

DERRICK STURGE  
Vice President, Finance and Chief Financial Officer

WAYNE CHAMBERLAIN  
General Counsel and Corporate Secretary

PETER HICKMAN  
Assistant Corporate Secretary

JAMES MEANEY  
General Manager, Finance

AUBURN WARREN  
General Manager, Commercial, Treasury & Risk

**HEAD OFFICE**

Hydro Place,  
P.O. Box 12400  
500 Columbus Drive  
St. John's, NL  
Canada A1B 4K7

**MUSKRAT FALLS CORPORATION**  
**STATEMENT OF FINANCIAL POSITION**  
**(Unaudited)**

<i>As at (thousands of Canadian dollars)</i>	Notes	<b>September 30 2014</b>	December 31 2013
<b>ASSETS</b>			
Current assets			
Restricted cash	3	<b>543,519</b>	318,787
Current portion of advances	6	<b>52,664</b>	-
Other receivables		<b>9,426</b>	1,805
Prepaid		<b>1,597</b>	2,086
<b>Total current assets</b>		<b>607,206</b>	322,678
Non-current assets			
Property, plant and equipment	4	<b>1,137,212</b>	701,854
Investments	5	<b>1,216,946</b>	1,807,266
Advances	6	<b>49,765</b>	15,000
Long-term prepaid		<b>4,718</b>	5,916
<b>Total assets</b>		<b>3,015,847</b>	2,852,714
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>			
Current liabilities			
Trade and other payables		<b>236,398</b>	73,614
<b>Total current liabilities</b>		<b>236,398</b>	73,614
Non-current liabilities			
Long-term debt	7	<b>2,132,472</b>	2,132,489
<b>Total liabilities</b>		<b>2,368,870</b>	2,206,103
Shareholder's equity			
Share capital		<b>1</b>	1
Contributed capital		<b>660,786</b>	660,786
Reserves		<b>(11,695)</b>	(12,325)
Deficit		<b>(2,115)</b>	(1,851)
<b>Total shareholder's equity</b>		<b>646,977</b>	646,611
<b>Total liabilities and shareholder's equity</b>		<b>3,015,847</b>	2,852,714

Commitments and contingencies (Note 11)

*See accompanying notes*

**MUSKRAT FALLS CORPORATION**  
**STATEMENT OF COMPREHENSIVE LOSS**  
**(Unaudited)**

	Three Months Ended	Nine Months Ended
<i>For the period ended September 30 (thousands of Canadian dollars)</i>	<b>2014</b>	<b>2014</b>
	<b>(Note 1)</b>	<b>(Note 1)</b>
Operating costs	<b>28</b>	<b>(264)</b>
Expenses	<b>28</b>	<b>(264)</b>
Income (loss) for the period, being total comprehensive loss for the period	<b>28</b>	<b>(264)</b>

*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 (Note 1)
Balance at January 1, 2014	1	660,786	(12,325)	(1,851)	646,611
Loss income for the period	-	-	-	(264)	(264)
Total comprehensive loss income for the period	-	-	-	(264)	(264)
Reserves recognized in profit or loss	-	-	630	-	630
<b>Balance at September 30, 2014</b>	<b>1</b>	<b>660,786</b>	<b>(11,695)</b>	<b>(2,115)</b>	<b>646,977</b>

*See accompanying notes*

**MUSKRAT FALLS CORPORATION**  
**STATEMENT OF CASH FLOWS**  
**(Unaudited)**

	Notes	Three Months Ended	Nine Months Ended
		2014	2014
<i>For the period ended September 30 (thousands of Canadian dollars)</i>		(Note 1)	(Note 1)
Cash provided by (used in)			
Operating activities			
Profit (loss) for the period		28	(264)
Adjusted for items not involving a cash flow			
Accretion of long-term debt		(6)	(17)
Reserves amortized to profit or loss		210	630
Increase in advances		-	(87,429)
Decrease in long-term prepaid		1,198	1,198
		1,430	(85,882)
Changes in non-cash working capital balances	12	65,967	155,652
Net cash from operating activities		67,397	69,770
Investing activities			
Additions to property, plant and equipment	4	(190,497)	(435,358)
Decrease in investments		161,263	590,320
Net cash used in investing activities		(29,234)	154,962
Financing activities			
Increase in restricted cash	3	(38,163)	(224,732)
Net cash used in financing activities		(38,163)	(224,732)
Net increase in cash		-	-
Cash at beginning of period		-	-
Cash at end of period		-	-

Supplementary cash flow information (Note 12)

*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 hydro-electric facility rated at 824 megawatts (MW). The head office of Muskrat Falls 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 hydro-electric 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 hydro-electric 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 hydro-electric 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.

As Muskrat Falls was incorporated in November 2013, no comparative information has been presented for statements of comprehensive loss, changes in equity and cash flows and related note disclosures.

**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 as issued by the International Accounting Standards Board (IASB).

These condensed interim financial statements have been prepared using the accounting policies, critical accounting judgments and key estimates consistent with those used in the preparation of the Annual Audited Financial Statements for the period ended December 31, 2013. 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 except as detailed in the accounting policies disclosed in the Company's Annual Audited Financial Statements for the period ended December 31, 2013. The condensed interim financial statements are presented in Canadian dollars and 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 Muskrat Falls/Labrador Transmission Assets Project Finance Agreement (PFA).

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

**4. PROPERTY, PLANT AND EQUIPMENT**

<i>(thousands of Canadian dollars)</i>	Construction in Progress	
	September 30 2014	December 31 2013
Cost		
Beginning balance	701,854	-
Contributions	-	653,466
Additions	435,358	48,388
Ending balance	1,137,212	701,854

As at September 30, 2014 and December 31, 2013, all amounts recorded in construction in progress relate to the development of the Muskrat Falls hydro-electric facility. In 2013, Nalcor contributed construction in progress of \$653.5 million to Muskrat Falls. There were no additional contributions in 2014.

Capitalized Borrowing Costs

The construction of the Muskrat Falls hydro-electric facility was sanctioned in December 2012 and is expected to take several years to complete. The construction is being financed, in part, through the issuance of long-term debt. During 2014, \$38.9 million of borrowing costs were capitalized (December 31, 2013 - \$2.5 million). The effective interest rate of the debt is 3.80%.

**5. 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 ratable 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>	September 30 2014	December 31 2013
\$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%.	231,089	349,153
\$1,912.7 million Amortizing Fixed Rate Deposit Note, with interest paid at a rate of 1.5937% per annum.	924,357	1,396,613
	1,216,946	1,807,266

**6. ADVANCES**

As at September 30, 2014, amounts recorded as advances consists of advances paid to contractors on long-term construction contracts in relation to the Muskrat Falls hydro-electric facility. The advances are secured by a \$102.4 million letter of credit from a Schedule 1 Canadian Bank.



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

**7. LONG-TERM DEBT**

Details of the long-term debt are as follows:

	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	September 30 2014	December 31 2013
<i>(thousands of Canadian dollars)</i>						
Tranche A	533,000	3.63	2013	2029	533,182	533,192
Tranche B	553,500	3.83	2013	2037	553,586	553,588
Tranche C	1,045,500	3.86	2013	2048	1,045,704	1,045,709
Total debentures	<u>2,132,000</u>				<u>2,132,472</u>	<u>2,132,489</u>

**8. NET FINANCE INCOME AND COSTS**

	Three Months Ended 2014	Nine Months Ended 2014
<i>For the period ended September 30 (thousands of Canadian dollars)</i>		
Finance income		
Interest on investments	5,307	18,345
Other interest income	1,395	3,440
	<u>6,702</u>	<u>21,785</u>
Finance costs		
Interest on long-term debt	(20,703)	(60,720)
Interest capitalized during construction	14,001	38,935
Net finance costs	-	-

**9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

**9.1 Fair Value**

The estimated fair values of financial instruments as at September 30, 2014 and December 31, 2013 are based on relevant market prices and information available at the time when the information exists. 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 the Company might receive or incur in actual market transactions.

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 includes 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)**

**9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Cont'd.)**

**9.1 Fair Value (Cont'd.)**

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, 2014 and December 31, 2013.

As of September 30, 2014 and December 31, 2013, the Company did not have any level 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>(thousands of Canadian dollars)</i>		<b>September 30, 2014</b>		December 31, 2013	
Financial assets					
Restricted cash	1	<b>543,519</b>	<b>543,519</b>	318,787	318,787
Other receivables	1	<b>9,426</b>	<b>9,476</b>	1,805	1,805
Investments	2	<b>1,216,946</b>	<b>1,217,201</b>	1,807,266	1,806,961
Financial liabilities					
Trade and other payables	1	<b>236,398</b>	<b>236,398</b>	73,614	73,614
Long-term debt	2	<b>2,132,472</b>	<b>2,377,816</b>	2,132,489	2,167,900

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

**9.2 Hedge Accounting**

In December 2013, Muskrat Falls entered into nine bond forward contracts totaling \$2.0 billion to hedge the interest rate risk on the forecasted issue of long-term debt. These contracts were designated as part of a cash flow hedging relationship and the resulting change in fair value of \$14.1 million was recorded as \$12.3 million in other comprehensive income (loss) with \$1.8 million of ineffectiveness recognized immediately in other income and expense. The loss will be recognized in profit or loss over the same period as the related debt instruments which mature between 2029 and 2048. As of September 30, 2014, \$0.6M of the hedge ineffectiveness was recognized in profit or loss in net finance expense.

**10. RELATED PARTY TRANSACTIONS**

Muskrat Falls enters into various transactions with its parent and other affiliates. These transactions occur within 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
NL Hydro	100% owned subsidiary of Nalcor
Labrador Transco	100% owned subsidiary of Nalcor
Lower Churchill Management Corporation	100% owned subsidiary of Nalcor
Muskrat Falls/Labrador Transmission Assets Funding Trust	Party to the MF/LTA project finance agreement
LIL LP	Limited Partnership between LIL Holdco and Emera NL

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

---

**11. COMMITMENTS AND CONTINGENCIES**

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 the financial position of Muskrat Falls.

As at September 30, 2014, Muskrat Falls had outstanding commitments for construction costs related to the Muskrat Falls hydro-electric facility of \$1,397.8 million (December 31, 2013 - \$1,578.1 million).

**12. SUPPLEMENTARY CASH FLOW INFORMATION**

	<b>Three Months Ended</b>	<b>Nine Months Ended</b>
<i>For the period ended September 30 (thousands of Canadian dollars)</i>	<b>2014</b>	<b>2014</b>
Other receivables	<b>17,873</b>	<b>(7,621)</b>
Prepaid	-	<b>489</b>
Trade and other payables	<b>48,094</b>	<b>162,784</b>
Changes in non-cash working capital balances	<b>65,967</b>	<b>155,652</b>
Interest received	<b>6,676</b>	<b>22,714</b>
Interest paid	-	<b>37,192</b>

**13. COMPARATIVE FIGURES**

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