

**MUSKRAT FALLS CORPORATION**  
**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**March 31, 2016**  
**(Unaudited)**

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

<i>As at (thousands of Canadian dollars)</i>	Notes	<b>March 31 2016</b>	December 31 2015
<b>ASSETS</b>			
Current assets			
Restricted cash		<b>577,980</b>	632,102
Current portion of long-term investments	5	<b>203,193</b>	277,919
Advances		<b>76,017</b>	76,017
Trade and other receivables		<b>18,155</b>	20,239
Prepayments		<b>3,254</b>	3,254
<b>Total current assets</b>		<b>878,599</b>	1,009,531
Non-current assets			
Property, plant and equipment	3	<b>2,333,989</b>	2,184,726
Intangible assets	4	<b>126</b>	136
Long-term investments	5	<b>46,830</b>	46,830
Long-term prepayments		<b>4,255</b>	5,068
<b>Total assets</b>		<b>3,263,799</b>	3,246,291
<b>LIABILITIES AND EQUITY</b>			
Current liabilities			
Trade and other payables		<b>282,935</b>	303,642
Non-current liabilities			
Long-term debt	6	<b>1,976,407</b>	1,976,412
<b>Total liabilities</b>		<b>2,259,342</b>	2,280,054
Shareholder's equity			
Share capital		<b>1</b>	1
Shareholder contributions	8	<b>1,019,261</b>	980,651
Reserves		<b>(10,436)</b>	(10,646)
Deficit		<b>(4,369)</b>	(3,769)
<b>Total equity</b>		<b>1,004,457</b>	966,237
<b>Total liabilities and equity</b>		<b>3,263,799</b>	3,246,291

Commitments and contingencies (Note 13)

*See accompanying notes*

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

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Notes	<b>Three months ended</b>	
		<b>2016</b>	2015
Operating costs		<b>87</b>	78
Other (income) expense	10	<b>513</b>	-
Loss for the period		<b>(600)</b>	(78)
Other comprehensive income for the period	7	<b>210</b>	210
Total comprehensive (loss) income for the period		<b>(390)</b>	132

*See accompanying notes*

**MUSKRAT FALLS CORPORATION**  
**STATEMENT OF CHANGES IN EQUITY**  
(Unaudited)

<i>(thousands of Canadian dollars)</i>	Notes	Share Capital	Shareholder Contributions	Reserves	Deficit	Total
<b>Balance at January 1, 2016</b>		<b>1</b>	<b>980,651</b>	<b>(10,646)</b>	<b>(3,769)</b>	<b>966,237</b>
<b>Loss for the period</b>		-	-	-	<b>(600)</b>	<b>(600)</b>
<b>Net change in fair value of cash flow hedges</b>	<b>7</b>	-	-	<b>210</b>	-	<b>210</b>
<b>Total comprehensive loss for the period</b>		-	-	<b>210</b>	<b>(600)</b>	<b>(390)</b>
<b>Shareholder contributions</b>	<b>8</b>	-	<b>38,610</b>	-	-	<b>38,610</b>
<b>Balance at March 31, 2016</b>		<b>1</b>	<b>1,019,261</b>	<b>(10,436)</b>	<b>(4,369)</b>	<b>1,004,457</b>
Balance at January 1, 2015		1	687,464	(11,486)	(2,916)	673,063
Loss for the period		-	-	-	(78)	(78)
Net change in fair value of cash flow hedges	7	-	-	210	-	210
Total comprehensive income for the period		-	-	210	(78)	132
Balance at March 31, 2015		1	687,464	(11,276)	(2,994)	673,195

See accompanying notes

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

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Notes	<b>Three months ended</b>	
		<b>2016</b>	<b>2015</b>
Cash provided by (used in)			
Operating activities			
Loss for the period		<b>(600)</b>	(78)
Adjusted for items not involving a cash flow:			
Amortization of long-term prepayments		<b>813</b>	813
Accretion of long-term debt		<b>(5)</b>	(5)
Reserves amortized to profit or loss	7	<b>210</b>	210
Decrease in advances		-	9,396
Changes in non-cash working capital balances	14	<b>(12)</b>	22
<b>Net cash provided from operating activities</b>		<b>406</b>	10,358
Investing activities			
Additions to property, plant and equipment	3	<b>(149,195)</b>	(133,548)
Additions to intangible assets	4	<b>(58)</b>	-
Decrease in investments	5	<b>74,726</b>	169,265
Changes in non-cash working capital balances	14	<b>(18,611)</b>	(1,947)
<b>Net cash (used in) provided from investing activities</b>		<b>(93,138)</b>	33,770
Financing activities			
Decrease (increase) in restricted cash		<b>54,122</b>	(44,128)
Increase in shareholder contributions	8	<b>38,610</b>	-
<b>Net cash provided from (used in) financing activities</b>		<b>92,732</b>	(44,128)
Net increase (decrease) in cash and cash equivalents		-	-
Cash and cash equivalents, beginning of period		-	-
Cash and cash equivalents, end of period		-	-
Interest received		<b>2,281</b>	5,065
Interest paid		<b>3</b>	2

*See accompanying notes*

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

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**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. Muskrat Falls is a 100% owned subsidiary of Nalcor Energy (Nalcor). Muskrat Falls' head office is located at 500 Columbus Drive, St. John's, Newfoundland and Labrador, A1B 0M4, Canada.

Muskrat Falls was formed to design, develop, construct, finance and operate the Muskrat Falls hydroelectric facility rated at 824 megawatts.

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 Standards (IAS) 34 Interim Financial Reporting and have been prepared using accounting policies consistent with those used in the preparation of the annual audited financial statements for the year ended December 31, 2015.

These condensed interim financial statements do not include all of the disclosures normally found in 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. The condensed interim financial statements were approved by Muskrat Falls' Board of Directors on May 12, 2016.

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

**3. PROPERTY, PLANT AND EQUIPMENT**

<i>(thousands of Canadian dollars)</i>	Project Support Assets	Construction in Progress	Total
<b>Cost</b>			
Balance at January 1, 2015	182,900	1,184,687	1,367,587
Additions	2,578	890,190	892,768
Balance at December 31, 2015	185,478	2,074,877	2,260,355
<b>Additions</b>	<b>(22)</b>	<b>160,646</b>	<b>160,624</b>
<b>Balance at March 31, 2016</b>	<b>185,456</b>	<b>2,235,523</b>	<b>2,420,979</b>
<b>Depreciation</b>			
Balance at January 1, 2015	30,175	-	30,175
Depreciation	45,454	-	45,454
Balance at December 31, 2015	75,629	-	75,629
<b>Depreciation</b>	<b>11,361</b>	<b>-</b>	<b>11,361</b>
<b>Balance at March 31, 2016</b>	<b>86,990</b>	<b>-</b>	<b>86,990</b>
<b>Carrying value</b>			
Balance at January 1, 2015	152,725	1,184,687	1,337,412
Balance at December 31, 2015	109,849	2,074,877	2,184,726
<b>Balance at March 31, 2016</b>	<b>98,466</b>	<b>2,235,523</b>	<b>2,333,989</b>

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 period ended March 31, 2016, \$16.5 million (December 31, 2015 - \$56.5 million) of borrowing costs were capitalized. The effective interest rate of the debt is 3.80%.

**4. INTANGIBLE ASSETS**

<i>(thousands of Canadian dollars)</i>	Computer Software
<b>Cost</b>	
Balance at January 1, 2015	1,673
Additions	273
Balance at December 31, 2015	1,946
<b>Additions</b>	<b>58</b>
<b>Balance at March 31, 2016</b>	<b>2,004</b>
<b>Amortization</b>	
Balance at January 1, 2015	1,509
Amortization	301
Balance at December 31, 2015	1,810
<b>Amortization</b>	<b>68</b>
<b>Balance at March 31, 2016</b>	<b>1,878</b>
<b>Carrying value</b>	
Balance at January 1, 2015	164
Balance at December 31, 2015	136
<b>Balance at March 31, 2016</b>	<b>126</b>

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

**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. The investments are restricted in nature and are subject to the provisions contained within the Muskrat Falls/Labrador Transmission Assets Project Finance Agreement (MF/LTA PFA). In July 2015, 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 MF/LTA PFA. Under the amended MF/LTA 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 March 31, 2016, Muskrat Falls' portion was 76% (December 31, 2015 – 76%).

<i>As at (thousands of Canadian dollars)</i>	Year of Maturity	<b>March 31 2016</b>	December 31 2015
\$75.0 million Floating Rate Deposit Note, with interest paid at the one-month Canadian Dealer Offer Rate (CDOR) plus 0.38%.	2017	<b>57,000</b>	57,000
\$478.2 million Amortizing Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.38%.	2016	<b>38,605</b>	53,550
\$1,912.7 million Amortizing Fixed Rate Deposit Note, with interest paid at a rate of 1.5937% per annum.	2016	<b>154,418</b>	214,199
Long-term investments, end of period		<b>250,023</b>	324,749
Less: redemptions to be received within one year		<b>203,193</b>	277,919
		<b>46,830</b>	46,830

**6. LONG-TERM DEBT**

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

<i>As at (thousands of Canadian dollars)</i>	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	<b>March 31 2016</b>	December 31 2015
Tranche A	494,000	3.63	2013	2029	<b>494,153</b>	494,154
Tranche B	513,000	3.83	2013	2037	<b>513,073</b>	513,075
Tranche C	969,000	3.86	2013	2048	<b>969,181</b>	969,183
Total debentures	1,976,000				<b>1,976,407</b>	1,976,412

In July 2015, Muskrat Falls, Labrador Transco, the MF/LTA Funding Trust and the Collateral Agent executed an amendment to the MF/LTA 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 March 31, 2016, Muskrat Falls' cumulative portion of actual debt drawn was 76% (December 31, 2015 – 76%).



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

**7. ACCUMULATED OTHER COMPREHENSIVE INCOME**

The components of, and changes in, accumulated other comprehensive income (loss) are as follows:

*Items that may be reclassified to profit or loss:*

<i>(thousands of Canadian dollars)</i>	<b>Three months ended</b>	
	<b>2016</b>	2015
Cash flow hedges		
Balance, beginning of period	<b>(10,646)</b>	(11,486)
Reclassification adjustments for amounts recognized in profit or loss	<b>210</b>	210
Balance, end of period	<b>(10,436)</b>	(11,276)

**8. SHAREHOLDER'S EQUITY**

**Shareholder Contributions**

<i>As at (thousands of Canadian dollars)</i>	<b>March 31</b>	December 31
	<b>2016</b>	2015
Total shareholder contributions	<b>1,019,261</b>	980,651

During 2016, Nalcor made contributions to Muskrat Falls in the amount of \$38.6 million (December 31, 2015 - \$293.2 million).

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

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	<b>Three months ended</b>	
	<b>2016</b>	2015
Finance income		
Interest on investments	<b>1,103</b>	3,773
Other interest income	<b>1,124</b>	1,234
	<b>2,227</b>	5,007
Finance expense		
Interest on long-term debt	<b>18,746</b>	20,226
	<b>18,746</b>	20,226
Interest capitalized during construction	<b>(16,519)</b>	(15,219)
	<b>2,227</b>	5,007
Net finance (income) expense	-	-

**10. OTHER (INCOME) EXPENSE**

Other (income) expense consists of foreign exchange gains and losses associated with construction costs of the Muskrat Falls hydroelectric facility. Foreign exchange gains and losses for three months ended March 31, 2016, was \$0.5 million (March 31, 2015 - \$nil).

**11. FINANCIAL INSTRUMENTS**

**Fair Value**

The estimated fair values of financial instruments as at March 31, 2016 and December 31, 2015 are based on relevant market prices and information available at the time. Fair value estimates are based on valuation techniques which are significantly affected by the assumptions used including the amount and timing of future cash flows and discount rates reflecting various degrees of risk. As such, the fair value estimates below are not necessarily indicative of the amounts that Muskrat Falls might receive or incur in actual market transactions.

**MUSKRAT FALLS CORPORATION**  
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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 measurements during the periods ended March 31, 2016 and December 31, 2015.

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

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		March 31, 2016		December 31, 2015	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Investments	2	250,023	250,330	324,749	325,209
Financial liabilities					
Long-term debt	2	1,976,407	2,335,850	1,976,412	2,317,138

The fair values of restricted cash, trade and other receivables, advances 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.

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

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**12. 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
Hydro	100% owned subsidiary of Nalcor
Labrador Transco	100% owned subsidiary of Nalcor
Lower Churchill Management Corporation (LCMC)	100% owned subsidiary of Nalcor
Labrador-Island Link Limited Partnership (LIL LP)	Limited partnership between Labrador-Island Link Holding Corporation and Emera Newfoundland and Labrador Island Link Inc.
MF/LTA Funding Trust	Party to the MF/LTA PFA

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

- (a) As at March 31, 2016, Muskrat Falls has related party payables of \$0.2 million (December 31, 2015 - \$2.4 million) with Nalcor and related party receivables for \$6.2 million (December 31, 2015 - \$1.5 million) with Labrador Transco, LCMC and LIL LP. These payables/receivables consist of various intercompany operating and construction costs.
- (b) As at March 31, 2016, Muskrat Falls has received contributions from Nalcor in the amount of \$1,019 million (December 31, 2015 - \$980.7 million). Included in these contributions are two instalment payments to meet pre-funded equity requirements associated with the MF/LTA PFA. Contributions include cash, property, plant and equipment, associated advances and liabilities related to the construction of the Muskrat Falls hydroelectric facility.
- (c) For the period ended March 31, 2016, LCMC charged a project management fee of \$0.03 million (March 31, 2015 - \$0.03 million) to Muskrat Falls in exchange for providing services such as planning, engineering and design management, construction management, risk management, finance, procurement and supply chain management.

**13. 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 MF/LTA 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.
- (d) As at March 31, 2016, Muskrat Falls had outstanding commitments for construction costs related to the Muskrat Falls hydroelectric facility of \$1,283.2 million (December 31, 2015 - \$1,380.7 million).

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

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**14. SUPPLEMENTARY CASH FLOW INFORMATION**

	<b>Three months ended</b>	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	<b>2016</b>	<b>2015</b>
Trade and other receivables	<b>2,084</b>	9,784
Trade and other payables	<b>(20,707)</b>	(11,709)
Changes in non-cash working capital balances	<b>(18,623)</b>	(1,925)
Related to:		
Operating activities	<b>(12)</b>	22
Investing activities	<b>(18,611)</b>	(1,947)
	<b>(18,623)</b>	(1,925)