

**LABRADOR TRANSMISSION CORPORATION**  
**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**March 31, 2017**  
**(Unaudited)**

**LABRADOR TRANSMISSION CORPORATION**  
**STATEMENT OF FINANCIAL POSITION**  
(Unaudited)

<i>As at (thousands of Canadian dollars)</i>	Notes	<b>March 31 2017</b>	December 31 2016
<b>ASSETS</b>			
Current assets			
Restricted cash		<b>70,338</b>	112,755
Current portion of long-term investments	5	-	12,940
Trade and other receivables		<b>9,333</b>	6,573
Prepayments		<b>404</b>	404
<b>Total current assets</b>		<b>80,075</b>	132,672
Non-current assets			
Property, plant and equipment	3	<b>835,826</b>	801,932
Intangible assets	4	<b>25</b>	33
Long-term prepayments		<b>171</b>	272
<b>Total assets</b>		<b>916,097</b>	934,909
<b>LIABILITIES AND EQUITY</b>			
Current liabilities			
Trade and other payables		<b>91,566</b>	113,054
Non-current liabilities			
Long-term debt	6	<b>546,107</b>	546,108
<b>Total liabilities</b>		<b>637,673</b>	659,162
Shareholder's equity			
Share capital		<b>1</b>	1
Shareholder contributions	7	<b>279,243</b>	276,497
Deficit		<b>(820)</b>	(751)
<b>Total equity</b>		<b>278,424</b>	275,747
<b>Total liabilities and equity</b>		<b>916,097</b>	934,909

Commitments and contingencies (Note 12)

*See accompanying notes*

**LABRADOR TRANSMISSION 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>2017</b>	<b>2016</b>
Other income	9	<b>6</b>	<b>3</b>
Operating costs		<b>75</b>	<b>37</b>
<b>Total loss and comprehensive loss for the period</b>		<b>(69)</b>	<b>(34)</b>

*See accompanying notes*

**LABRADOR TRANSMISSION CORPORATION**  
**STATEMENT OF CHANGES IN EQUITY**  
(Unaudited)

<i>(thousands of Canadian dollars)</i>	Notes	Share Capital	Shareholder Contributions	Deficit	Total
<b>Balance at January 1, 2017</b>		<b>1</b>	<b>276,497</b>	<b>(751)</b>	<b>275,747</b>
<b>Total comprehensive loss for the period</b>		-	-	<b>(69)</b>	<b>(69)</b>
<b>Shareholder contributions</b>	<b>7</b>	-	<b>2,746</b>	-	<b>2,746</b>
<b>Balance at March 31, 2017</b>		<b>1</b>	<b>279,243</b>	<b>(820)</b>	<b>278,424</b>
Balance at January 1, 2016		1	212,150	(519)	211,632
Total comprehensive loss for the period		-	-	(34)	(34)
Shareholder contributions	7	-	18,306	-	18,306
Balance at March 31, 2016		1	230,456	(553)	229,904

*See accompanying notes*

**LABRADOR TRANSMISSION 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>2017</b>	2016
<b>Operating activities</b>			
Loss for the period		<b>(69)</b>	(34)
Adjusted for items not involving a cash flow:			
Amortization of long-term prepayments		<b>101</b>	101
Accretion of long-term debt		<b>(1)</b>	(2)
Changes in non-cash working capital balances	13	<b>3</b>	(22)
<b>Net cash provided from operating activities</b>		<b>34</b>	43
<b>Investing activities</b>			
Additions to property, plant and equipment	3	<b>(33,879)</b>	(50,963)
Additions to intangible assets	4	<b>(7)</b>	(14)
Decrease in investments	5	<b>12,940</b>	23,597
Changes in non-cash working capital balances	13	<b>(24,251)</b>	(18,914)
<b>Net cash used in investing activities</b>		<b>(45,197)</b>	(46,294)
<b>Financing activities</b>			
Decrease in restricted cash		<b>42,417</b>	27,945
Increase in shareholder contributions	7	<b>2,746</b>	18,306
<b>Net cash provided from financing activities</b>		<b>45,163</b>	46,251
Net increase (decrease) in cash		-	-
Cash, beginning of period		-	-
Cash, end of period		-	-
Interest received		<b>201</b>	759
Interest paid		-	1

*See accompanying notes*

**LABRADOR TRANSMISSION CORPORATION**  
**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)**

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**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. Labrador Transco is a 100% owned subsidiary of Nalcor Energy (Nalcor). Labrador Transco's head office is located at 500 Columbus Drive, St. John's, Newfoundland and Labrador, A1B 0M6, Canada.

Labrador Transco was formed to design, construct, finance, operate and maintain the Labrador Transmission Assets (LTA), which includes two 315-kV High Voltage alternating current 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.

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**

**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, 2016.

These condensed interim financial statements do not include all of the disclosures normally found in Labrador Transco's 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 Board of Directors of Labrador Transco has delegated the authority to approve the condensed interim financial statements to the Audit Committee of the Board of Directors of Nalcor, which approved the statements on May 9, 2017.

**LABRADOR TRANSMISSION 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
Cost			
Balance at January 1, 2016	13,282	626,834	640,116
Additions	45	170,998	171,043
Balance at December 31, 2016	13,327	797,832	811,159
<b>Additions</b>	<b>-</b>	<b>34,617</b>	<b>34,617</b>
<b>Balance at March 31, 2017</b>	<b>13,327</b>	<b>832,449</b>	<b>845,776</b>
Depreciation			
Balance at January 1, 2016	6,334	-	6,334
Depreciation	2,893	-	2,893
Balance at December 31, 2016	9,227	-	9,227
<b>Depreciation</b>	<b>723</b>	<b>-</b>	<b>723</b>
<b>Balance at March 31, 2017</b>	<b>9,950</b>	<b>-</b>	<b>9,950</b>
Carrying value			
Balance at January 1, 2016	6,948	626,834	633,782
Balance at December 31, 2016	4,100	797,832	801,932
<b>Balance at March 31, 2017</b>	<b>3,377</b>	<b>832,449</b>	<b>835,826</b>

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. For the period ended March 31, 2017, \$5.0 million (December 31, 2016 - \$13.0 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
Cost	
Balance at January 1, 2016	424
Additions	61
Balance at December 31, 2016	485
<b>Additions</b>	<b>7</b>
<b>Balance at March 31, 2017</b>	<b>492</b>
Amortization	
Balance at January 1, 2016	373
Amortization	79
Balance at December 31, 2016	452
<b>Amortization</b>	<b>15</b>
<b>Balance at March 31, 2017</b>	<b>467</b>
Carrying value	
Balance at January 1, 2016	51
Balance at December 31, 2016	33
<b>Balance at March 31, 2017</b>	<b>25</b>

**LABRADOR TRANSMISSION CORPORATION**  
**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)**

**5. 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 were restricted in nature and subject to the provisions contained within the MF/LTA Project Finance Agreement (MF/LTA PFA). In July 2015, Labrador Transco, Muskrat Falls, 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, 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 March 31, 2017, Labrador Transco's portion was 21% (December 31, 2016 - 21%). As of March 31, 2017, these investments were fully drawn down.

<i>As at (thousands of Canadian dollars)</i>	Year of Maturity	<b>March 31 2017</b>	December 31 2016
\$75.0 million Floating Rate Deposit Note with interest paid at the one-month Canadian Dollar Offer Rate (CDOR) plus 0.38%.	2017	-	12,940
Long-term investments, end of period		-	12,940
Less: redemptions to be received within one year		-	12,940
		-	-

**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 2017</b>	December 31 2016
Tranche A	136,500	3.63	2013	2029	<b>136,539</b>	136,539
Tranche B	141,750	3.83	2013	2037	<b>141,769</b>	141,770
Tranche C	267,750	3.86	2013	2048	<b>267,799</b>	267,799
Total debentures	546,000				<b>546,107</b>	546,108

In July 2015, Labrador Transco, Muskrat Falls, the MF/LTA Funding Trust and the Collateral Agent executed an amendment to the MF/LTA 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 March 31, 2017, Labrador Transco's cumulative portion of actual debt drawn was 21% (December 31, 2016 - 21%).

**7. SHAREHOLDER'S EQUITY**

**Shareholder Contributions**

<i>As at (thousands of Canadian dollars)</i>	<b>March 31 2017</b>	December 31 2016
Total shareholder contributions	<b>279,243</b>	276,497

During 2017, Nalcor made contributions to Labrador Transco in the amount of \$2.7 million (December 31, 2016 - \$64.3 million).



**LABRADOR TRANSMISSION CORPORATION**  
**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)**

**8. NET FINANCE EXPENSE**

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	<b>Three months ended</b>	
	<b>2017</b>	<b>2016</b>
Finance income		
Interest on investments	<b>13</b>	348
Other interest income	<b>178</b>	402
	<b>191</b>	750
Finance expense		
Interest on long-term debt	<b>5,180</b>	5,920
	<b>5,180</b>	5,920
Interest capitalized during construction	<b>(4,989)</b>	(5,170)
	<b>191</b>	750
Net finance expense	-	-

**9. OTHER INCOME**

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	<b>Three months ended</b>	
	<b>2017</b>	<b>2016</b>
Realized foreign exchange gain	<b>(7)</b>	-
Unrealized foreign exchange loss (gain)	<b>1</b>	(3)
Other income	<b>(6)</b>	(3)

**10. FINANCIAL INSTRUMENTS**

**Fair Value**

The estimated fair values of financial instruments as at March 31, 2017 and December 31, 2016 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 disclosed 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 disclosed do not reflect the fair value of Labrador Transco 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).

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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, 2017 and December 31, 2016.

As at March 31, 2017 and December 31, 2016 the Company did not have any Level 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		March 31, 2017		December 31, 2016	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Investments	2	-	-	12,940	12,936
Financial liabilities					
Long-term debt	2	546,107	617,280	546,108	612,315

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 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.

**11. RELATED PARTY TRANSACTIONS**

Labrador Transco 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 Labrador Transco transacts are as follows:

Related Party	Relationship
Nalcor	100% shareholder of Labrador Transco
Hydro	Wholly-owned subsidiary of Nalcor
Muskat Falls	Wholly-owned subsidiary of Nalcor
Lower Churchill Management Corporation (LCMC)	Wholly-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, 2017, Labrador Transco has related party payables totaling \$0.07 million (December 31, 2016 - \$0.02 million) with Nalcor and related party receivables totaling \$6.4 million (December 31, 2016 - \$4.7 million) with LCMC, Muskrat Falls, and LIL LP. These payables/receivables consist of various intercompany operating and construction costs.
- (b) For the period ended March 31, 2017, Labrador Transco has received contributions from Nalcor totaling \$2.7 million (March 31, 2016 - \$18.3 million).

**LABRADOR TRANSMISSION CORPORATION**  
**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)**

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**12. 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 MF/LTA 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) Outstanding commitments for capital projects, total approximately \$30.2 million as at March 31, 2017 (December 31, 2016 - \$47.1 million). Outstanding commitments related to pre-funded equity requirements associated with the Project Finance Agreements are \$nil as at March 31, 2017 (December 31, 2016 - \$251.2 million).

**13. SUPPLEMENTARY CASH FLOW INFORMATION**

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	<b>Three months ended</b>	
	<b>2017</b>	<b>2016</b>
Trade and other receivables	<b>(2,760)</b>	4,319
Trade and other payables	<b>(21,488)</b>	(23,255)
Changes in non-cash working capital balances	<b>(24,248)</b>	(18,936)
Related to:		
Operating activities	<b>3</b>	(22)
Investing activities	<b>(24,251)</b>	(18,914)
	<b>(24,248)</b>	(18,936)