LABRADOR TRANSMISSION CORPORATION
CONDENSED INTERIM FINANCIAL STATEMENTS
September 30, 2017
(Unaudited)

LABRADOR TRANSMISSION CORPORATION
STATEMENT OF FINANCIAL POSITION
(Unaudited)

As at (thousands of Canadian dollars)	Notes	**September 30 2017**	December 31 2016
ASSETS			
Current assets			
Restricted cash		**105,660**	112,755
Current portion of long-term investments	5	**145,545**	12,940
Trade and other receivables		**7,581**	6,573
Prepayments		**293**	404
Total current assets		**259,079**	132,672
Non-current assets			
Property, plant and equipment	3	**890,492**	801,932
Intangible assets	4	**15**	33
Long-term investments	5	**77,253**	-
Long-term prepayments		**81**	272
Total assets		**1,226,920**	934,909
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		**72,278**	113,054
Non-current liabilities			
Long-term debt	6	**890,459**	546,108
Total liabilities		**962,737**	659,162
Shareholder’s equity			
Share capital		**1**	1
Shareholder contributions		**279,243**	276,497
Reserves	7	**(13,663)**	-
Deficit		**(1,398)**	(751)
Total equity		**264,183**	275,747
Total liabilities and equity		**1,226,920**	934,909

Commitments and contingencies (Note 12)

See accompanying notes

LABRADOR TRANSMISSION CORPORATION
STATEMENT OF LOSS AND COMPREHENSIVE LOSS
(Unaudited)

For the period ended September 30 (thousands of Canadian dollars)	Notes	**Three months ended** **2017**	2016	**Nine months ended** **2017**	2016
Operating costs		**188**	77	**419**	148
Other expense	9	**(1)**	1	**228**	10
Loss for the period		**(187)**	(78)	**(647)**	(158)
Other comprehensive loss for the period					
Cash flow hedges					
Net fair value losses on cash flow hedges		**-**	-	**(13,881)**	-
Reclassification adjustments for amounts recognized in profit or loss	7	**163**	-	**218**	-
Total items that may or have been reclassified to profit or loss		**163**	-	**(13,663)**	-
Total comprehensive loss for the period		**(24)**	(78)	**(14,310)**	(158)

See accompanying notes

LABRADOR TRANSMISSION CORPORATION
STATEMENT OF CHANGES IN EQUITY
(Unaudited)

(thousands of Canadian dollars)	Notes	Share Capital	Shareholder Contributions	Reserves	Deficit	Total
Balance at January 1, 2017		**1**	**276,497**	**-**	**(751)**	**275,747**
Loss for the period		**-**	**-**	**-**	**(647)**	**(647)**
Net change in fair value of cash flows hedges	**7**	**-**	**-**	**(13,663)**	**-**	**(13,663)**
Total comprehensive loss for the period		**-**	**-**	**(13,663)**	**(647)**	**(14,310)**
Shareholder contributions		**-**	**2,746**	**-**	**-**	**2,746**
Balance at September 30, 2017		**1**	**279,243**	**(13,663)**	**(1,398)**	**264,183**
Balance at January 1, 2016		1	212,150	-	(519)	211,632
Loss for the period		-	-	-	(158)	(158)
Shareholder contributions		-	48,523	-	-	48,523
Balance at September 30, 2016		1	260,673	-	(677)	259,997

See accompanying notes

LABRADOR TRANSMISSION CORPORATION
STATEMENT OF CASH FLOWS
(Unaudited)

For the period ended September 30 (thousands of Canadian dollars)	Notes	**Three months ended** **2017**	2016	**Nine months ended** **2017**	2016
Operating activities					
Loss for the period		**(187)**	(78)	**(647)**	(158)
Adjustments for the following non-cash items					
Amortization of long-term prepayments		**17**	101	**191**	304
Accretion of long-term debt		**(5)**	(1)	**(9)**	(5)
Reserves amortized to profit or loss	7	**163**	-	**218**	-
Changes in non-cash working capital balances	13	**12**	21	**27**	9
Net cash (used in) provided from operating activities		**-**	43	**(220)**	150
Investing activities					
Additions to property, plant and equipment	3	**(20,068)**	(45,389)	**(88,522)**	(133,117)
Additions to intangible assets	4	**-**	(12)	**(20)**	(56)
Change in investments	5	**(222,798)**	24,642	**(209,858)**	83,286
Changes in non-cash working capital balances	13	**(21,682)**	(7,073)	**(41,700)**	(8,579)
Net cash used in investing activities		**(264,548)**	(27,832)	**(340,100)**	(58,466)
Financing activities					
Change in long-term debt	6	**-**	-	**344,360**	(52,010)
Change in restricted cash		**264,548**	5,916	**7,095**	61,803
Settlement of cash flow hedges	7	**-**	-	**(13,881)**	-
Increase in shareholder contributions		**-**	21,873	**2,746**	48,523
Net cash provided from financing activities		**264,548**	27,789	**340,320**	58,316
Net increase (decrease) in cash		**-**	-	**-**	-
Cash, beginning of period		**-**	-	**-**	-
Cash, end of period		**-**	-	**-**	-
Interest received		**1,324**	755	**1,710**	2,072
Interest paid		**1**	-	**10,167**	11,840

See accompanying notes

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 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, 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 (CAD) 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 November 7, 2017.

3. PROPERTY, PLANT AND EQUIPMENT

(thousands of Canadian dollars)	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
Additions	**2,384**	**88,725**	**91,109**
Balance at September 30, 2017	**15,711**	**886,557**	**902,268**
Depreciation			
Balance at January 1, 2016	6,334	-	6,334
Depreciation	2,893	-	2,893
Balance at December 31, 2016	9,227	-	9,227
Depreciation	**2,549**	**-**	**2,549**
Balance at September 30, 2017	**11,776**	**-**	**11,776**
Carrying value			
Balance at January 1, 2016	6,948	626,834	633,782
Balance at December 31, 2016	4,100	797,832	801,932
Balance at September 30, 2017	**3,935**	**886,557**	**890,492**

Capitalized Borrowing Costs

The construction of the LTA is being financed through the issuance of long-term debt and contributed capital. For the period ended September 30, 2017, $15.6 million (December 31, 2016 - $13.0 million) of borrowing costs were capitalized.

4. INTANGIBLE ASSETS

(thousands of Canadian dollars)	Computer Software
Cost	
Balance at January 1, 2016	424
Additions	61
Balance at December 31, 2016	485
Additions	**20**
Balance at September 30, 2017	**505**
Amortization	
Balance at January 1, 2016	373
Amortization	79
Balance at December 31, 2016	452
Amortization	**38**
Balance at September 30, 2017	**490**
Carrying value	
Balance at January 1, 2016	51
Balance at December 31, 2016	33
Balance at September 30, 2017	**15**

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. These investments were fully drawn down in 2017. In July 2017, the Company, jointly with Muskrat Falls, purchased three additional structured deposit notes using the proceeds from the issue of long-term debt. The investments are restricted in nature and subject to the provisions contained within the MF/LTA Project Finance Agreement (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 September 30, 2017, Labrador Transco's portion was 20% (December 31, 2016 - 21%).

As at (thousands of Canadian dollars)	Year of Maturity	**September 30 2017**	December 31 2016
$75.0 million Floating Rate Deposit Note with interest paid at the one-month Canadian Dealer Offer Rate (CDOR) plus 0.38%.	2017	**-**	12,940
$75.0 million Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.20%.	2019	**15,000**	-
$483.8 million Amortizing Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.20%.	2019	**83,119**	-
$725.7 million Amortizing Fixed Rate Deposit Note, with interest paid at a rate of 1.679% per annum.	2019	**124,679**	-
Long-term investments, end of period		**222,798**	12,940
Less: redemptions to be received within one year		**145,545**	12,940
		77,253	-

6. LONG-TERM DEBT

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

As at (thousands of Canadian dollars)	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	**September 30 2017**	December 31 2016
Tranche A	130,000	3.63	2013	2029	**130,035**	136,539
Tranche B	135,000	3.83	2013	2037	**135,018**	141,770
Tranche C	255,000	3.86	2013	2048	**255,045**	267,799
Tranche 1-10	40,953	1.14-1.75	2017	2020-2025	**40,963**	-
Tranche 11-20	44,857	1.84-2.37	2017	2025-2030	**44,870**	-
Tranche 21-30	50,519	2.41-2.64	2017	2030-2035	**50,546**	-
Tranche 31-40	57,637	2.66-2.80	2017	2035-2040	**57,700**	-
Tranche 41-50	66,207	2.81-2.86	2017	2040-2045	**66,281**	-
Tranche 51-60	76,217	2.84-2.86	2017	2045-2050	**76,325**	-
Tranche 61-64	33,610	2.85	2017	2050-2052	**33,676**	-
Total debentures	890,000				**890,459**	546,108

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 Project Finance Agreement (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 September 30, 2017, Labrador Transco's cumulative portion of actual debt drawn was 20% (December 31, 2016 - 21%). Cumulative adjustments were made in the current year to reflect Labrador Transco ratable share of the actual debt drawn.

On May 10, 2017, Muskrat Falls, Labrador Transco, the MF/LTA Funding Trust and the Collateral Agent executed a second amendment to the MF/LTA PFA. Under the terms and conditions of the second amended MF/LTA PFA, the MF/LTA Funding Trust agreed to provide an additional non-revolving credit facility in the amount of $1.85 billion available in 64 series bonds with maturities of every six months beginning in December 2020. On May 25, 2017, the second construction facility was fully drawn down by way of a single advance to an account administered by a Collateral Agent. The Company draws funds from this account on a monthly basis in accordance with procedures set out in the MF/LTA PFA. The financing of the MF/LTA Funding Trust benefits from a direct, absolute, unconditional and irrevocable guarantee from Canada, and thereby carry its full faith and credit (AAA rating or equivalent). Under the terms of the additional guarantee from the Government of Canada, Labrador Transco agree to pay an annual guarantee fee starting in May 2018 equal to its ratable share of 0.5% of the average balance outstanding on Tranches 1 through 64 for the prior twelve months.

As security for these debt obligations, Labrador Transco has granted to the Collateral Agent first ranking liens on all present and future assets. Sinking funds are required to be set up for these debentures to be held in a sinking fund account under the control of the Collateral Agent.

Sinking fund installments due for the next five years for the 12 month period ended September 30 are as follows:

(thousands of Canadian dollars)	2018	2019	2020	2021	2022
Sinking fund instalments	-	-	-	14,444	14,444

7. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

(thousands of Canadian dollars)	**2017**	2016
Cash flow hedges		
Balance at January 1	**-**	-
Net fair value losses on cash flow hedges	**(13,881)**	-
Reclassification adjustments for amounts recognized in profit or loss	**218**	-
Balance at September 30	**(13,663)**	-

8. NET FINANCE EXPENSE

	Three months ended		Nine months ended	
For the period ended September 30 (thousands of Canadian dollars)	**2017**	2016	**2017**	2016
Finance income				
Interest on investments	**688**	129	**247**	(163)
Other interest income	**466**	870	**(146)**	1,876
	1,154	999	**101**	1,713
Finance expense				
Interest and fees on long-term debt	**7,908**	5,426	**15,732**	12,235
Bank fees	**-**	2	**1**	2
	7,908	5,428	**15,733**	12,237
Interest capitalized during construction	**(6,754)**	(4,429)	**(15,632)**	(10,524)
	1,154	999	**101**	1,713
Net finance expense	**-**	-	**-**	-

Due to the MF/LTA PFA amendment in July 2015, cumulative adjustments were made in the current year to net finance expense to reflect Labrador Transco's ratable share of the actual debt drawn.

9. OTHER EXPENSE

	Three months ended		Nine months ended	
For the period ended September 30 (thousands of Canadian dollars)	**2017**	2016	**2017**	2016
Cash flow hedge ineffectiveness	**-**	-	**230**	-
Realized foreign exchange loss (gain)	**(1)**	1	**(3)**	13
Unrealized foreign exchange loss (gain)	**-**	-	**1**	(3)
Other expense	**(1)**	1	**228**	10

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

10.1 Fair Value

The estimated fair values of financial instruments as at September 30, 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).

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 September 30, 2017 and December 31, 2016.

As at September 30, 2017 and December 31, 2016 the Company did not have any Level 3 instruments.

	Level	Category	Carrying Value	Fair Value	Carrying Value	Fair Value
(thousands of Canadian dollars)			**September 30, 2017**		December 31, 2016	
Financial assets						
Investments	**2**	**HTM**[1]	**222,798**	**222,798**	12,940	12,936
Financial liabilities						
Long-term debt	**2**	**OFL**[2]	**890,459**	**927,106**	546,108	612,315

[1]Held-to-maturity investments
[2]Other financial liabilities

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.

10.2 Risk Management

The Company is exposed to certain credit, liquidity and market price risks through its operating, financing and investing activities. Financial risk is managed in accordance with a Board-approved policy, which outlines the objectives and strategies for the management of financial risk, including the use of derivative contracts. Permitted financial risk management strategies are aimed at minimizing the volatility of the Company's expected future cash flows.

Credit Risk

The Company's expected future cash flows are exposed to credit risk through financing activities, based on the risk of non-performance by counterparties to its financial instruments. Credit risk on restricted cash and investments is minimal, as the Company's deposits and investments are held by Canadian Schedule 1 Chartered Banks with ratings of A and AA- (Standard and Poor's). The degree of exposure to credit risk on trade and other receivables and advances is determined by the financial capacity and stability of the counterparties whereby the maximum risk is represented by their carrying value on the Statement of Financial Position at the reporting date.

Liquidity Risk

The Company is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. Liquidity risk management activities are directed at ensuring cash is available to meet those obligations as they become due. Short-term liquidity is provided through restricted cash on hand and shareholder contributions. The Company can access the funds drawn down from the Muskrat/LTA Construction Facility and shareholder contributions for the payment of construction costs as well as interest payments.

The following are the contractual maturities of the Company's financial liabilities, including principal, sinking fund and interest, as at September 30, 2017:

(thousands of Canadian dollars)	<1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	72,278	-	-	-	72,278
Long-term debt (including interest and sinking fund)	29,161	58,323	103,031	1,375,233	1,565,748
	101,439	58,323	103,031	1,375,233	1,638,026

Market Risk

In the course of carrying out its operating, financing and investing activities, the Company is exposed to possible market price movements that could impact expected future cash flow and the carrying value of certain financial assets and liabilities.

Interest Rates

Changes in prevailing interest rates will impact the fair value of financial assets and liabilities. Expected future cash flows from these assets and liabilities are also impacted in certain circumstances.

Foreign Currency and Commodity Exposure

The Company does not hold any financial instruments whose value would vary due to changes in a commodity price or fluctuations in foreign currency exchange rates. Cash flow exposure to commodity price and foreign exchange risk arises primarily through investing activities, most notably US dollar denominated capital expenditures, and regular procurement activities. Exposure arising from capital expenditures is evaluated on a case by case basis. Where possible, contracts are denominated in CAD.

10.3 Hedge Accounting

In May 2017, Labrador Transco entered into three bond forward contracts totaling $0.4 billion to hedge the interest rate risk on the forecasted issue of the additional long-term debt. These contracts were designated as part of a cash flow hedging relationship and the resulting change in fair value was recorded in other comprehensive income (loss) with the ineffective portion recognized immediately in other (income) expense. The amortization of the other comprehensive loss related to the effective portion of the cash flow hedge is capitalized in line with treatment of the interest expense related to the long-term debt that it is hedging, until project commissioning. Subsequent to commissioning, amortization on the remainder of the effective portion will be recognized in profit or loss over the same period as the related debt instruments mature. The total amount amortized as at September 30, 2017 including the previous cash flow hedge initiated in December 2013 was $0.2 million (December 31, 2016 - nil).

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
Muskrat 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.

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

(a) As at September 30, 2017, Labrador Transco has related party payables totaling $4.2 million (December 31, 2016 - $0.02 million) with Muskrat Falls and Nalcor and related party receivables totaling $2.9 million (December 31, 2016 - $4.7 million) with LIL LP and LCMC. These payables/receivables consist of various intercompany operating and construction costs.

(b) During 2017, Labrador Transco has received contributions from Nalcor totaling $2.7 million (September 30, 2016 - $48.5 million).

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 $13.0 million as at September 30, 2017 (December 31, 2016 - $47.1 million). Outstanding commitments related to the Project Finance Agreements total approximately $13.3 million as at September 30, 2017 (December 31, 2016 - $251.2 million).

13. SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended		**Nine months ended**	
For the period ended September 30 (thousands of Canadian dollars)	**2017**	2016	**2017**	2016
Trade and other receivables	**455**	(4,277)	**(1,008)**	4,067
Prepayments	**83**	-	**111**	-
Trade and other payables	**(22,208)**	(2,775)	**(40,776)**	(12,637)
Changes in non-cash working capital balances	**(21,670)**	(7,052)	**(41,673)**	(8,570)
Related to:				
Operating activities	**12**	21	**27**	9
Investing activities	**(21,682)**	(7,073)	**(41,700)**	(8,579)
	(21,670)	(7,052)	**(41,673)**	(8,570)