

LABRADOR - ISLAND LINK HOLDING CORPORATION
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
March 31, 2015
(Unaudited)

DIRECTORS

TOM CLIFT
Professor, Faculty of Business Administration
Memorial University of Newfoundland and Labrador

ERIN BREEN*
Partner, Simmons+ Partners Defence

DERRICK STURGE
President and Chief Executive Officer

SHEILA KELLY-BLACKMORE
Business Person

OFFICERS

TOM CLIFT
Chairperson

DERRICK STURGE
President and Chief Executive Officer

PETER HICKMAN
Corporate Secretary

JAMES MEANEY
General Manager, Finance

AUBURN WARREN
General Manager, Commercial, Treasury and Risk

*Resigned April 15th, 2015

HEAD AND CORPORATE OFFICE

Nalcor Energy
P.O. Box 12400
Hydro Place, 500 Columbus Drive
St. John's, NL
Canada A1B 0C9

LABRADOR - ISLAND LINK HOLDING CORPORATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Unaudited)

<i>As at (thousands of Canadian dollars)</i>	Notes	March 31 2015	December 31 2014
ASSETS			
Current assets			
Cash and cash equivalents		1,908	1,904
Restricted cash	3	591,100	485,528
Trade and other receivables	4	7,574	13,445
Current portion of advances	7	17,148	5,305
Prepayments		2,184	2,185
Total current assets		619,914	508,367
Non-current assets			
Property, plant and equipment	5	828,093	691,342
Investments	6	1,410,097	1,622,761
Advances	7	-	3,647
Long-term prepayments		5,070	5,616
Total assets		2,863,174	2,831,733
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Trade and other payables		192,838	163,135
Non-current liabilities			
Long-term debt	8	2,400,612	2,400,618
Deferred revenue		8,000	8,000
Class B limited partnership units	9	81,071	79,402
Other long-term payables		118	107
Total liabilities		2,682,639	2,651,262
Shareholder's equity			
Share capital		1	1
Contributed capital		181,460	181,460
Deficit		(926)	(990)
Total equity		180,535	180,471
Total liabilities and shareholder's equity		2,863,174	2,831,733

Commitments and contingencies (Note 13)

See accompanying notes

LABRADOR - ISLAND LINK HOLDING CORPORATION
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Unaudited)

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Notes	Three months ended	
		2015	2014
Revenue			
Net finance income and expenses	10	155	-
Expenses			
Operating costs		(91)	(34)
Income (loss) for the period, being total comprehensive income (loss) for the period		64	(34)

See accompanying notes

LABRADOR - ISLAND LINK HOLDING CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
(Unaudited)

<i>(thousands of Canadian dollars)</i>	Share Capital	Contributed Capital	Deficit	Total
Balance at January 1, 2015	1	181,460	(990)	180,471
Total comprehensive income for the period	-	-	64	64
Balance at March 31, 2015	1	181,460	(926)	180,535
Balance at January 1, 2014	1	121,380	(121)	121,260
Total comprehensive loss for the period	-	-	(34)	(34)
Balance at March 31, 2014	1	121,380	(155)	121,226

See accompanying notes

LABRADOR - ISLAND LINK HOLDING CORPORATION
CONSOLIDATED 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			
Profit (loss) for the period		64	(34)
Adjusted for items not involving a cash flow:			
Amortization of long-term prepayments		547	-
Accretion of long-term debt		(6)	(6)
Changes in non-cash working capital balances	14	35,574	31,055
Increase in advances	7	(8,196)	-
Increase in long-term payables		11	-
Net cash provided from operating activities		27,994	31,015
Investing activities			
Additions to property, plant and equipment	5	(135,082)	(44,772)
Decrease in investments	6	212,664	47,339
Net cash provided from investing activities		77,582	2,567
Financing activities			
Increase in restricted cash	3	(105,572)	(34,660)
Net cash used in financing activities		(105,572)	(34,660)
Net change in cash and cash equivalents		4	(1,078)
Cash and cash equivalents, beginning of period		1,904	1,952
Cash and cash equivalents, end of period		1,908	874

Supplementary cash flow information (Note 14)

See accompanying notes

LABRADOR - ISLAND LINK HOLDING CORPORATION
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

1. DESCRIPTION OF BUSINESS

Labrador-Island Link Holding Corporation (LIL Holdco or the Company) was incorporated under the laws of the Province of Newfoundland and Labrador on July 31, 2012 and is a limited partner in the Labrador-Island Link Limited Partnership (the Partnership or LIL LP). LIL Holdco's head office is located in St. John's, Newfoundland and Labrador.

LIL Holdco is a 100% owned subsidiary of Nalcor Energy (Nalcor).

LIL Holdco, together with the Labrador-Island Link General Partner Corporation (LIL GP or the General Partner), also a 100% Nalcor-owned subsidiary, represent Nalcor's interests in the Partnership. Emera Newfoundland and Labrador Island-Link Inc. (Emera NL) is the remaining limited partner of the Partnership, and when combined with Nalcor's interests, represents 100% of the Partnership. The Partnership is expected to terminate on December 31, 2081, unless terminated earlier or extended in accordance with the Labrador-Island Link Limited Partnership Agreement (the Partnership Agreement or LIL LPA).

The Partnership was formed to carry on the business of designing, engineering, constructing, commissioning, owning, financing, operating and maintaining the assets and property constituting the Labrador-Island Link (the LIL). The Partnership has entered into the LIL Assets Agreement, the LIL Lease Agreement and the Transmission Funding Agreement with Labrador-Island Link Operating Corporation (LIL Opco) and Newfoundland and Labrador Hydro (Hydro) both of which are wholly-owned subsidiaries of Nalcor. These agreements effectively provide for a lease of the transmission rights on the LIL to Hydro. LIL Opco will maintain and operate the LIL on behalf of the Partnership.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance and Basis of Measurement

These condensed consolidated 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 consolidated interim financial statements do not include all of the disclosures normally found in LIL Holdco's annual audited financial statements and should be read in conjunction with the annual audited financial statements.

These condensed consolidated 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 LIL. The Partnership draws funds from this account on a monthly basis in accordance with procedures set out in the LIL Project Finance Agreement (LIL PFA).

LABRADOR - ISLAND LINK HOLDING CORPORATION
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

4. TRADE AND OTHER RECEIVABLES

The composition of trade and other receivables is as follows:

<i>(thousands of Canadian dollars)</i>	March 31 2015	December 2014
Receivables due from related parties	-	558
Other receivables	7,574	12,887
	7,574	13,445

Other receivables are comprised primarily of input tax credits and a small amount of accrued interest.

5. PROPERTY, PLANT AND EQUIPMENT

Capitalized costs related to the construction of the LIL are shown in the table below:

<i>(thousands of Canadian dollars)</i>	Construction in Progress	
	March 31 2015	December 31 2014
Cost		
Beginning balance	691,342	222,999
Additions	136,751	468,343
Ending balance	828,093	691,342

Capitalized Borrowing Costs

The construction of the LIL was sanctioned in December 2012. The construction is being financed, in part, through the issuance of long-term debt. For the three months ended March 31, 2015, \$15.8 million (December 31, 2014 - \$55.8 million) of borrowing costs were capitalized. The effective interest rate of the debt is 3.83%. The Company also capitalized borrowing costs associated with the Limited B units of \$1.7 million (December 31, 2014 - \$6.4 million) as non-cash additions to property, plant and equipment.

6. INVESTMENTS

In December 2013, the Partnership purchased three structured deposit notes using the proceeds of the advance under the LIL Construction 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%.	75,000	75,000
\$883.5 million Amortizing Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.38%.	534,039	619,104
\$1,325.3 million Amortizing Fixed Rate Deposit Note, with interest paid at a rate of 1.6182% per annum	801,058	928,657
	1,410,097	1,622,761

LABRADOR - ISLAND LINK HOLDING CORPORATION
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

7. ADVANCES

As at March 31, 2015, amounts recorded as advances consists of advances paid to a contractor on a long-term construction contract in relation to the LIL.

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	725,000	3.76	2013	2033	725,284	725,288
Tranche B	600,000	3.86	2013	2045	600,109	600,110
Tranche C	1,075,000	3.85	2013	2053	1,075,219	1,075,220
Total debentures	2,400,000				2,400,612	2,400,618

9. PARTNERSHIP UNITS LIABILITIES

9.1 Class B Limited Partnership Unit Liabilities

The components of the change in balances in the Limited B units are as follows:

	Units	March 31 2015	Units	December 31 2014
<i>(thousands of Canadian dollars)</i>				
Class B limited partnership units liabilities at beginning of period	25	79,402	25	72,979
Accrued interest	-	1,669	-	6,423
Class B limited partnership units liabilities at end of period	25	81,071	25	79,402

10. 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	6,011	9,033
Other interest income	1,285	402
	7,296	9,435
Finance expense		
Interest on long-term debt	(22,952)	(22,952)
Interest on Limited B units	(1,669)	(1,534)
Interest capitalized during construction	17,480	15,051
	(7,141)	(9,435)
Net finance income and expense	155	-

LABRADOR - ISLAND LINK HOLDING CORPORATION
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

11. FINANCIAL INSTRUMENTS

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 LIL Holdco might receive or incur in actual market transactions.

As a significant number of LIL Holdco's assets and liabilities do not meet the definition of a financial instrument, the fair value estimates below do not reflect the fair value of LIL Holdco 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 measurement during the period ended March 31, 2015 and the year ended December 31, 2014.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		March 31, 2015		December 31, 2014	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Cash and cash equivalents	1	1,908	1,908	1,904	1,904
Restricted cash	1	591,100	591,100	485,528	485,528
Trade and other receivables	1	7,574	7,574	13,445	13,445
Investments	2	1,410,097	1,412,956	1,622,761	1,623,626
Advances	2	17,148	17,148	8,952	8,952
Financial liabilities					
Trade and other payables	1	192,838	192,838	163,135	163,135
Long-term debt	2	2,400,612	3,080,602	2,400,618	2,871,521
Other long-term payables	2	118	118	107	107
Class B limited partnership units	3	81,071	81,071	79,402	79,402

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

LABRADOR - ISLAND LINK HOLDING CORPORATION
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

The table below sets forth a summary of changes in fair value of the Company's level 3 financial liabilities given a percent change in the discount rate while holding other variables constant:

<i>(thousands of Canadian dollars)</i>	1% increase in discount rate	1% decrease in discount rate
Class B limited partnership units	(1,597)	1,580

12. RELATED PARTY TRANSACTIONS

LIL Holdco 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 LIL Holdco transacts are as follows:

Related Party	Relationship
Emera NL	Limited Partner holding 25 Class B limited partnership units of LIL LP
Nalcor	100% shareholder of LIL Holdco
LIL Opco	Wholly-owned subsidiary of Nalcor
LIL GP	General partner of LIL LP, wholly-owned subsidiary of Nalcor
Labrador-Island Link Funding Trust (Funding Trust)	Party to the IT Project Finance Agreement (IT PFA)
Lower Churchill Management Corporation	Wholly-owned subsidiary of Nalcor
Labrador Transmission Corporation	Wholly-owned subsidiary of Nalcor
Muskkrat Falls Corporation	Wholly-owned subsidiary of Nalcor

13. COMMITMENTS AND CONTINGENCIES

- (a) As part of the LIL PFA, the Partnership has pledged its current and future assets as security to the Collateral Agent. Under the terms and conditions of the IT PFA, the Partnership has also provided a guarantee of the LIL Construction Project Trust's payment obligations to the Collateral Agent for the benefit of the Funding Trust. The Company has pledged the escrow account, where the \$60.1 million in pre-funded equity contribution has been deposited, as security to the Collateral Agent.
- (b) Under the terms and conditions of the Partnership Agreement, LIL Holdco has committed to fund its share of the capital expenditures of the LIL.
- (c) As at March 31, 2015, the Partnership had outstanding commitments for construction costs related to the LIL of \$1,694.6 million (December 31, 2014 - \$1,659.0 million).

14. 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	5,871	(196)
Prepayment	-	6
Trade and other payables	29,703	31,245
Changes in non-cash working capital balances	35,574	31,055
Interest received	7,233	9,282
Interest paid	2	2

15. SUBSEQUENT EVENTS

Subsequent to March 31, 2015, the Partnership entered into new commitments totaling \$2.4 million.