

**LABRADOR - ISLAND LINK HOLDING CORPORATION**  
**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2014**  
**(Unaudited)**

**DIRECTORS**

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

ERIN BREEN  
Partner, Simmonds+ Partners Defence

DERRICK STURGE  
President and Chief Executive Officer

SHEILA KELLY-BLACKMORE  
Business Person

TOM O'BRIEN  
Mayor, Town of Stephenville

**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, Financing, Treasury & Risk

**HEAD OFFICE**

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**LABRADOR - ISLAND LINK HOLDING CORPORATION**  
**CONSOLIDATED 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			
Cash and cash equivalents		<b>1,980</b>	1,952
Restricted cash	3	<b>357,093</b>	136,707
Trade and other receivables		<b>5,771</b>	2,400
Current portion of advances		<b>3,841</b>	-
Prepaid		<b>1,083</b>	1,726
<b>Total current assets</b>		<b>369,768</b>	142,785
Non-current assets			
Property, plant and equipment	4	<b>528,918</b>	222,999
Investments	5	<b>1,877,030</b>	2,273,421
Advances	6	<b>5,142</b>	-
Long-term prepaid		<b>3,227</b>	4,039
<b>Total assets</b>		<b>2,784,085</b>	2,643,244
<b>LIABILITIES AND EQUITY</b>			
Current liabilities			
Trade and other payables		<b>176,613</b>	40,362
<b>Total current liabilities</b>		<b>176,613</b>	40,362
Non-current liabilities			
Long-term debt	7	<b>2,400,625</b>	2,400,643
Deferred revenue		<b>8,000</b>	8,000
Class B limited partnership units	8	<b>77,732</b>	72,979
<b>Total liabilities</b>		<b>2,662,970</b>	2,521,984
Equity			
Share capital		<b>1</b>	1
Contributed capital		<b>121,380</b>	121,380
Deficit		<b>(266)</b>	(121)
<b>Total equity</b>		<b>121,115</b>	121,260
<b>Total liabilities and equity</b>		<b>2,784,085</b>	2,643,244

Commitments and contingencies (Note 12)

*See accompanying notes*

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

	Notes	<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>	2013	<b>2014</b>	2013
Operating costs		<b>(3)</b>	(32)	<b>(145)</b>	(32)
Expenses		<b>(3)</b>	(32)	<b>(145)</b>	(32)
Loss for the period, being total comprehensive loss for the period		<b>(3)</b>	(32)	<b>(145)</b>	(32)

*See accompanying notes*

**LABRADOR - ISLAND LINK HOLDING CORPORATION**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**(Unaudited)**

<i>(thousands of Canadian dollars)</i>	Share Capital	Shareholder Contributions	Retained Earnings	Total
<b>Balance at January 1, 2014</b>	<b>1</b>	<b>121,380</b>	<b>(121)</b>	<b>121,260</b>
<b>Total comprehensive loss for the period</b>		<b>-</b>	<b>(145)</b>	<b>(145)</b>
<b>Balance at September 30, 2014</b>	<b>1</b>	<b>121,380</b>	<b>(266)</b>	<b>121,115</b>
Balance at January 1, 2013	1	121,380	-	121,381
Total comprehensive loss for the period		-	(32)	(32)
Balance at September 30, 2013	1	121,380	(32)	121,349

*See accompanying notes*

**LABRADOR - ISLAND LINK HOLDING CORPORATION**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**(Unaudited)**

	Notes	Three Months Ended		Nine Months Ended	
<i>For the period ended September 30 (thousands of Canadian dollars)</i>		2014	2013	2014	2013
Cash provided by (used in)					
Operating activities					
Loss for the period		(3)	(32)	(145)	(32)
Adjusted for items not affecting cash flow					
Accretion of long-term debt		(6)	-	(18)	-
Increase in advances		(8,983)	-	(8,983)	-
Decrease in long-term prepaid		812	-	812	-
		(9,804)	(32)	(8,334)	(32)
Changes in non-cash working capital balances	13	104,143	7,811	133,523	15,319
Net cash from operating activities		95,963	7,779	125,189	15,287
Investing activities					
Additions to property, plant and equipment	4	(156,837)	(15,299)	(301,166)	(40,473)
Decrease in investments		202,068	-	396,391	-
Net cash from (used in) investing activities		45,231	(15,299)	95,225	(40,473)
Financing Activities					
Issue of Class B limited partnership units	8	-	-	-	67,731
Increase in restricted cash		(141,148)	-	(220,386)	-
Net cash (used in) from financing activities		(141,148)	-	(220,386)	67,731
Net increase (decrease) in cash		46	(7,520)	28	42,545
Cash and cash equivalents at beginning of period		1,934	50,065	1,952	-
Cash and cash equivalents at end of period		1,980	42,545	1,980	42,545

Supplementary cash flow information (Note 13)

*See accompanying notes*

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

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**1. NATURE AND DESCRIPTION OF THE COMPANY**

Labrador-Island Link Holding Corporation (LIL Holdco or the Company) was incorporated under the laws of the Province of Newfoundland and Labrador 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 interest 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 interest, 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 interim consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*.

These condensed interim consolidated 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 Consolidated Financial Statements for the year ended December 31, 2013. These condensed interim consolidated financial statements do not include all of the disclosures normally found in LIL Holdco's Annual Audited Consolidated Financial Statements and should be read in conjunction with the Annual Audited Consolidated Financial Statements.

These condensed interim consolidated financial statements have been prepared on a historical cost basis except as detailed in the accounting policies disclosed in the Company's financial statements for the year ended December 31, 2013. The condensed interim consolidated 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 LIL. The Partnership draws funds from this account on a monthly basis in accordance with procedures set out in the Labrador-Island Link Project Finance Agreement (LIL PFA).

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

**4. PROPERTY, PLANT AND EQUIPMENT**

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

	<b>Construction in Progress</b>	
	<b>September 30</b>	December 31
<i>(thousands of Canadian dollars)</i>	<b>2014</b>	2013
Cost		
Beginning balance	<b>222,999</b>	125,946
Additions	<b>305,919</b>	97,053
Ending balance	<b>528,918</b>	228,999

As at September 30, 2014 and December 31, 2013, all amounts recorded in construction in progress relate to the development of the LIL.

Capitalized Borrowing Costs

The construction of the LIL 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, \$41.2 million of borrowing costs associated with long-term debt were capitalized (December 31, 2013 - \$2.6 million). The effective interest rate of the debt is 3.83%. LIL Holdco also capitalized borrowing costs associated with the Limited B units of \$4.8 million as non-cash additions to property, plant and equipment (December 31, 2013 - \$5.2 million).

**5. 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:

	<b>September 30</b>	December 31
<i>(thousands of Canadian dollars)</i>	<b>2014</b>	2013
\$75.0 million Floating Rate Deposit Note, with interest paid at the one-month Canadian Dealer Offer Rate (CDOR) plus 0.38%.	<b>75,000</b>	75,000
\$883.5 million Amortizing Floating Rate Deposit Note, with interest paid at the One-Month CDOR plus 0.38%.	<b>720,812</b>	879,369
\$1,325.3 million Amortizing Fixed Rate Deposit Note, with interest paid at a rate of 1.6182% per annum	<b>1,081,218</b>	1,319,052
	<b>1,877,030</b>	2,273,421



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

**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 Labrador Island Link.

**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	725,000	3.76	2013	2033	725,292	725,304
Tranche B	600,000	3.86	2013	2045	600,111	600,114
Tranche C	1,075,000	3.85	2013	2053	1,075,222	1,075,225
Total debentures	<u>2,400,000</u>				<u>2,400,625</u>	<u>2,400,643</u>

**8. PARTNERSHIP UNIT LIABILITIES**

**8.1 Class B Partnership Unit Liability**

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

	Units	September 30 2014	Units	December 31 2013
<i>(thousands of Canadian dollars)</i>				
Class B limited partnership unit liabilities at beginning of period	25	72,979	-	-
Units issued	-	-	25	67,731
Accrued interest		4,753		5,248
Class B limited partnership unit liabilities at end of period	<u>25</u>	<u>77,732</u>	<u>25</u>	<u>72,979</u>

**9. NET FINANCE INCOME AND COSTS**

	Three Months Ended		Nine Months Ended	
	2014	2013	2014	2013
<i>For the period ended September 30 (thousands of Canadian dollars)</i>				
Finance income				
Interest on investments	8,178	-	26,042	-
Other interest income	2,439	-	4,600	-
	<u>10,617</u>	<u>-</u>	<u>30,642</u>	<u>-</u>
Finance costs				
Interest on long-term debt	(24,530)	-	(71,850)	-
Interest on Limited B units	(1,635)	-	(4,753)	-
	<u>(26,165)</u>	<u>-</u>	<u>(76,603)</u>	<u>-</u>
Interest capitalized during construction	15,548	-	45,961	-
Net finance costs	-	-	-	-

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

**10. FINANCIAL INSTRUMENTS**

**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. 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.

As a significant number of the Company's assets and liabilities do not meet the definition of financial instruments, the fair value estimates below do not reflect the fair value of the Company 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 September 30, 2014 and the year ended December 31, 2013.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		September 30, 2014		December 31, 2013	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Cash and cash equivalents	1	1,980	1,980	1,952	1,952
Restricted cash	1	357,093	357,093	136,707	136,707
Trade and other receivables	1	5,771	5,771	2,400	2,400
Investments	2	1,877,030	1,877,805	2,273,421	2,272,618
Financial liabilities					
Trade and other payables	1	176,613	176,613	40,363	40,363
Long-term debt	2	2,400,625	2,700,605	2,400,643	2,437,351
Class B limited partnership units	3	77,732	77,732	72,979	72,979

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

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

**10. FINANCIAL INSTRUMENTS (cont'd.)**

**Fair Value (cont'd.)**

The table below sets forth a summary of changes in fair value of the Company's level 3 financial liabilities given a one 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	(35,921)	44,192

**11. RELATED PARTY TRANSACTIONS**

The Company enters into various transactions with its parents, subsidiary 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 the Company 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
Funding Trust	Party to the IT Project Finance Agreement (IT PFA)
Lower Churchill Management Corporation (LCMC)	Wholly-owned subsidiary of Nalcor
Muskat Falls	Wholly-owned subsidiary of Nalcor
Labrador Transco	Wholly-owned subsidiary of Nalcor

**12. COMMITMENTS AND CONTINGENCIES**

As part of the IT PFA, the Company has pledged its current and future assets as security to the collateral agent. Under the terms and conditions of the IT PFA, the Company has also provided a guarantee of the Project Trust's payment obligations to the collateral agent for the benefit of the Funding Trust.

Under the terms and conditions of the Partnership Agreement, LIL Holdco has committed to fund its share of the capital expenditures of the LIL.

As at September 30, 2014, the Company had outstanding commitments for construction costs related to the LIL of \$1,439.5 million (December 31, 2013 - \$296.1 million).

**13. SUPPLEMENTARY CASH FLOW INFORMATION**

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>2014</b>	2013	<b>2014</b>	2013
Trade and other receivables	<b>4,836</b>	615	<b>(3,371)</b>	(1,431)
Prepaid interest	-	-	<b>643</b>	-
Trade and other payables	<b>99,307</b>	7,196	<b>136,251</b>	16,750
Changes in non-cash working capital balances	<b>104,143</b>	7,811	<b>133,523</b>	15,319
Interest received	<b>8,806</b>	-	<b>28,997</b>	-
Interest paid	<b>2</b>	-	<b>42,118</b>	-

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

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**14. SUBSEQUENT EVENTS**

Subsequent to September 30, 2014, LIL LP entered into new capital commitments totalling \$187.4 million.

**15. COMPARATIVE FIGURES**

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