

LABRADOR - ISLAND LINK HOLDING CORPORATION
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
March 31, 2016
(Unaudited)

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

<i>As at (thousands of Canadian dollars)</i>	Notes	March 31 2016	December 31 2015
ASSETS			
Current assets			
Cash and cash equivalents		5	21
Restricted cash		1,019,444	989,601
Current portion of long-term investments	5	515,605	659,491
Trade and other receivables		18,234	22,069
Current portion of advances	6	13,793	12,830
Prepayments		2,184	2,184
Total current assets		1,569,265	1,686,196
Non-current assets			
Property, plant and equipment	3	1,755,444	1,572,358
Intangible assets	4	159	141
Long-term investments	5	-	28,951
Advances	6	1,607	3,219
Long-term prepayments		2,886	3,432
Total assets		3,329,361	3,294,297
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		316,558	326,157
Non-current liabilities			
Long-term debt	7	2,400,587	2,400,593
Deferred revenue		9,500	9,500
Class B limited partnership units	8	250,447	207,396
Contributions		10	10
Other long-term payables		131	129
Total liabilities		2,977,233	2,943,785
Shareholder's equity			
Share capital		1	1
Shareholder contributions	9	354,359	353,560
Deficit		(2,232)	(3,049)
Total equity		352,128	350,512
Total liabilities and equity		3,329,361	3,294,297

Commitments and contingencies (Note 14)

See accompanying notes

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

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Notes	Three months ended	
		2016	2015
Revenue			
Other revenue		1	-
Expenses			
Operating costs		99	91
Net finance (income) expense	10	(469)	(155)
Other (income) expense	11	(446)	-
Total comprehensive income for the period		817	64

See accompanying notes

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

<i>(thousands of Canadian dollars)</i>	Notes	Share Capital	Shareholder Contributions	Deficit	Total
Balance at January 1, 2016		1	353,560	(3,049)	350,512
Total comprehensive income for the period		-	-	817	817
Shareholder contributions	9	-	799	-	799
Balance at March 31, 2016		1	354,359	(2,232)	352,128
Balance at January 1, 2015		1	181,459	(990)	180,470
Total comprehensive income for the period		-	-	64	64
Balance at March 31, 2015		1	181,459	(926)	180,534

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	
		2016	2015
Cash provided from (used in)			
Operating activities			
Profit for the period		817	64
Adjusted for items not involving a cash flow:			
Amortization of long-term prepayments		546	547
Accretion of long-term debt		(6)	(6)
Decrease (increase) in advances	6	649	(8,196)
Increase in long-term payables		2	11
Changes in non-cash working capital balances	15	(28)	(35)
Net cash provided from (used in) operating activities		1,980	(7,615)
Investing activities			
Additions to property, plant and equipment	3	(178,275)	(135,082)
Additions to intangible assets	4	(89)	-
Decrease in investments	5	172,837	212,664
Changes in non-cash working capital balances	15	(5,736)	35,609
Net cash (used in) provided from investing activities		(11,263)	113,191
Financing activities			
Increase in restricted cash		(29,843)	(105,572)
Increase in Class B limited partnership units	8	38,311	-
Increase in shareholder contributions	9	799	-
Net cash provided from (used in) financing activities		9,267	(105,572)
Net (decrease) increase in cash and cash equivalents		(16)	4
Cash and cash equivalents, beginning of period		21	1,904
Cash and cash equivalents, end of period		5	1,908
Interest received		4,280	7,233
Interest paid		3	2

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 on July 31, 2012 under the laws of the Province of Newfoundland and Labrador. LIL Holdco is a 100% owned subsidiary of Nalcor Energy (Nalcor) and is a limited partner in the Labrador-Island Link Limited Partnership (the Partnership or LIL LP). LIL Holdco's head office is located at 500 Columbus Drive, St. John's, Newfoundland and Labrador, A1B 0C9, Canada.

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 (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

2.1 Statement of Compliance and Basis of Measurement

These condensed consolidated 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 consolidated financial statements for the year ended December 31, 2015.

These condensed consolidated interim 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 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. The condensed consolidated interim financial statements were approved by LIL Holdco's Board of Directors on May 12, 2016.

2.2 Basis of Consolidation

These condensed consolidated interim financial statements include the financial statements of LIL Holdco, the Partnership and the LIL Construction Project Trust (the IT). Intercompany transactions and balances have been eliminated upon consolidation.

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

3. PROPERTY, PLANT AND EQUIPMENT

<i>(thousands of Canadian dollars)</i>	Construction in Progress
Cost	
Balance at January 1, 2015	691,209
Additions	881,149
Balance at December 31, 2015	1,572,358
Additions	183,086
Balance at March 31, 2016	1,755,444
Carrying value	
Balance at January 1, 2015	691,209
Balance at December 31, 2015	1,572,358
Balance at March 31, 2016	1,755,444

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 period ended March 31, 2016, \$19.1 million (December 31, 2015 - \$68.4 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 \$4.7 million (December 31, 2015 - \$9.5 million) as non-cash additions to property, plant and equipment.

4. INTANGIBLE ASSETS

<i>(thousands of Canadian dollars)</i>	Computer Software
Cost	
Balance at January 1, 2015	1,095
Additions	282
Balance at December 31, 2015	1,377
Additions	89
Balance at March 31, 2016	1,466
Amortization	
Balance at January 1, 2015	962
Amortization	274
Balance at December 31, 2015	1,236
Amortization	71
Balance at March 31, 2016	1,307
Carrying value	
Balance at January 1, 2015	133
Balance at December 31, 2015	141
Balance at March 31, 2016	159

5. INVESTMENTS

In December 2013, the IT purchased three structured deposit notes using the proceeds of the advance under the LIL Construction Facility. The investments are restricted in nature and are subject to the provisions contained within the LIL Project Finance Agreement (LIL PFA).

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

<i>As at (thousands of Canadian dollars)</i>	Year of Maturity	March 31 2016	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	75,000	75,000
\$883.5 million Amortizing Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.38%.	2016	176,242	245,377
\$1,325.3 million Amortizing Fixed Rate Deposit Note, with interest paid at a rate of 1.6182% per annum	2016	264,363	368,065
Long-term investments, end of period		515,605	688,442
Less: redemptions to be received within one year		515,605	659,491
		-	28,951

6. ADVANCES

Amounts recorded as advances consist of advances paid to a contractor on a long-term construction contract in relation to the LIL. Advances are secured by a vendor performance bond. The bond is underwritten by three sureties with Standard and Poor's ratings of A or better.

<i>As at (thousands of Canadian dollars)</i>	March 31 2016	December 31 2015
Total advances	15,400	16,049
Less: current portion	13,793	12,830
Total long-term advances	1,607	3,219

7. 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	March 31 2016	December 31 2015
Tranche A	725,000	3.76	2013	2033	725,268	725,272
Tranche B	600,000	3.86	2013	2045	600,106	600,107
Tranche C	1,075,000	3.85	2013	2053	1,075,213	1,075,214
Total debentures	2,400,000				2,400,587	2,400,593

8. LIMITED PARTNERSHIP UNITS

Debt and equity instruments issued by LIL Holdco are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

8.1 Description of Class B Limited Partnership Units

The Class B limited partnership units represent Emera NL's ownership interest in the Partnership. As described in the Partnership Agreement, these units have certain rights and obligations, including mandatory distributions, that indicate that the substance of the units represent a financial liability and are measured at amortized cost using the effective interest method. The return on the units is classified as a finance expense. All finance expenses associated with the units have been capitalized.

LABRADOR - ISLAND LINK HOLDING CORPORATION
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8.2 Class B Limited Partnership Units

<i>As at (thousands of Canadian dollars)</i>	Units	March 31 2016	Units	December 31 2015
Class B limited partnership units, beginning of period	25	207,396	25	79,403
Contributions	-	38,311	-	118,443
Accrued interest	-	4,740	-	9,550
Class B limited partnership units, end of period	25	250,447	25	207,396

9. SHAREHOLDER'S EQUITY

Shareholder Contributions

<i>As at (thousands of Canadian dollars)</i>	March 31 2016	December 31 2015
Total shareholder contributions	354,359	353,560

During 2016, Nalcor made contributions to LIL Holdco in the amount of \$0.8 million (December 31, 2015 - \$172.1 million).

10. NET FINANCE (INCOME) EXPENSE

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Three months ended	
	2016	2015
Finance income		
Interest on investments	2,257	6,011
Other interest income	2,100	1,285
	4,357	7,296
Finance expense		
Interest on long-term debt	22,952	22,952
Interest on Class B limited partnership units	4,740	1,669
	27,692	24,621
Interest capitalized during construction	(23,804)	(17,480)
	3,888	7,141
Net finance (income) expense	(469)	(155)

11. OTHER (INCOME) EXPENSE

Other (income) expense consists of foreign exchange gains and losses associated with construction costs of the LIL. Foreign exchange gains and losses for the three months ended March 31, 2016 were (\$0.4) million (March 31, 2015 - \$nil).

12. 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 LIL Holdco might receive or incur in actual market transactions.

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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 measurements during the periods ended March 31, 2016 and December 31, 2015.

	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	515,605	516,291	688,442	689,718
Financial liabilities					
Long-term debt	2	2,400,587	2,882,313	2,400,593	2,858,272
Class B limited partnership units	3	250,447	250,447	207,396	207,396

The fair values 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. The fair value of other long-term payables approximates their carrying values due to the underlying nature of the balances with its intercompany counterparties.

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.

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	(3,174)	3,127

LABRADOR - ISLAND LINK HOLDING CORPORATION
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13. 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
Nalcor	100% shareholder of LIL Holdco
Emera NL	Limited Partner holding 25 Class B limited partnership units of LIL LP
Labrador Transmission Corporation (Labrador Transco)	Wholly-owned subsidiary of Nalcor
LIL GP	Wholly-owned subsidiary of Nalcor, general partner of LIL LP
LIL Opco	Wholly-owned subsidiary of Nalcor
Lower Churchill Management Corporation (LCMC)	Wholly-owned subsidiary of Nalcor
Muskrat Falls Corporation (Muskrat Falls)	Wholly-owned subsidiary of Nalcor

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

- (a) As at March 31, 2016, LIL Holdco has related party payables in the amount of \$12.0 million (December 31, 2015 - \$15.1 million) with LCMC, Muskrat Falls, Labrador Transco, and Nalcor. These payables consist of various intercompany operating and construction costs.
- (b) For the period ended March 31, 2016, LCMC charged a project management fee of \$0.03 million (March 31, 2015 - \$0.03 million) to LIL LP in exchange for providing services such as planning, engineering and design management, construction management, risk management, finance, procurement and supply chain management.

14. 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 Project Finance Agreement, the Partnership has also provided a guarantee of the IT's payment obligations to the Collateral Agent for the benefit of the Labrador-Island Link Funding Trust. The Company has pledged the escrow account, where the 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) LIL LP 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 LIL LP'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) As at March 31, 2016, LIL Holdco had outstanding commitments for construction costs related to the LIL of \$1,476.5 million (December 31, 2015 - \$1,598.8 million).

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

15. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Three months ended	
	2016	2015
Trade and other receivables	3,835	5,871
Trade and other payables	(9,599)	29,703
Changes in non-cash working capital balances	(5,764)	35,574
Related to:		
Operating activities	(28)	(35)
Investing activities	(5,736)	35,609
	(5,764)	35,574