

LABRADOR - ISLAND LINK LIMITED PARTNERSHIP
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
June 30, 2015
(Unaudited)

LABRADOR - ISLAND LINK LIMITED PARTNERSHIP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Unaudited)

<i>As at (thousands of Canadian dollars)</i>	Notes	June 30 2015	December 31 2014
ASSETS			
Current assets			
Cash and cash equivalents		1,912	1,904
Restricted cash		633,614	425,457
Current portion of long-term investments	6	853,526	934,320
Trade and other receivables	4	17,335	13,407
Current portion of advances		16,921	5,305
Prepayments		2,184	2,185
Total current assets		1,525,492	1,382,578
Non-current assets			
Property, plant and equipment	5	1,054,205	714,678
Investments	6	275,063	688,441
Advances		-	3,647
Long-term prepayments		4,524	5,616
Total assets		2,859,284	2,794,960
LIABILITIES AND PARTNERS' DEFICIT			
Current liabilities			
Trade and other payables		210,310	163,135
Non-current liabilities			
Long-term debt	8	2,400,606	2,400,618
Deferred revenue		8,000	8,000
Class A limited partnership units	9	150,902	144,714
Class B limited partnership units	9	90,632	79,403
Contributions		10	10
Total liabilities		2,860,460	2,795,880
Partners' deficit			
Deficit		(1,176)	(920)
Total partners' deficit		(1,176)	(920)
Total liabilities and partners' deficit		2,859,284	2,794,960

Commitments and contingencies (Note 13)

See accompanying notes

LABRADOR - ISLAND LINK LIMITED PARTNERSHIP
CONSOLIDATED STATEMENT OF LOSS AND COMPREHENSIVE LOSS
(Unaudited)

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Six months ended	
		2015	2014	2015	2014
Operating costs		175	100	256	108
Total comprehensive loss for the period		(175)	(100)	(256)	(108)

LABRADOR - ISLAND LINK LIMITED PARTNERSHIP
CONSOLIDATED STATEMENT OF CHANGES IN PARTNERS' DEFICIT
(Unaudited)

<i>(thousands of Canadian dollars)</i>	Allocation to Class A Limited Partner	Allocation to Class B Limited Partner	Total Deficit
Balance at January 1, 2015	(591)	(329)	(920)
Total comprehensive loss for the period	(160)	(96)	(256)
Balance at June 30, 2015	(751)	(425)	(1,176)
Balance at January 1, 2014	(37)	(25)	(62)
Total comprehensive loss for the period	(70)	(38)	(108)
Balance at June 30, 2014	(107)	(63)	(170)

LABRADOR - ISLAND LINK LIMITED PARTNERSHIP
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Six months ended	
		2015	2014	2015	2014
Cash provided from (used in)					
Operating activities					
Loss for the period		(175)	(100)	(256)	(108)
Adjusted for items not involving a cash flow:					
Amortization of long-term prepayments		546	-	1,092	-
Accretion of long-term debt		(6)	(6)	(12)	(12)
Changes in non-cash working capital balances	14	7,660	(1,683)	43,248	29,346
Decrease (increase) in advances		227	-	(7,969)	-
Net cash provided from (used in) operating activities		8,252	(1,789)	36,103	29,226
Investing activities					
Additions to property, plant and equipment	5	(187,029)	(99,557)	(322,110)	(144,329)
Decrease in investments	6	281,508	146,984	494,172	194,323
Net cash provided from investing activities		94,479	47,427	172,062	49,994
Financing activities					
Increase in restricted cash		(102,727)	(44,578)	(208,157)	(79,238)
Net cash used in financing activities		(102,727)	(44,578)	(208,157)	(79,238)
Net increase (decrease) in cash and cash equivalents		4	1,060	8	(18)
Cash and cash equivalents, beginning of period		1,908	874	1,904	1,952
Cash and cash equivalents, end of period		1,912	1,934	1,912	1,934

Supplementary cash flow information (Note 14)

See accompanying notes

LABRADOR - ISLAND LINK LIMITED PARTNERSHIP
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

1. DESCRIPTION OF BUSINESS

Labrador-Island Link Limited Partnership (the Partnership or LIL LP) was formed on July 31, 2012 under the laws of the Province of Newfoundland and Labrador. The Partnership's head office is located in St. John's, Newfoundland and Labrador.

The Partnership has two limited partners, Labrador-Island Link Holding Corporation (LIL Holdco), a wholly-owned subsidiary of Nalcor Energy (Nalcor), and Emera Newfoundland and Labrador Island Link Inc. (Emera NL). LIL Holdco holds 75 partnership units (Limited A units) and one Class C unit (Limited C unit) while Emera NL holds 25 partnership units (Limited B units). 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). LIL LP has entered into 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 LIL assets to Hydro. LIL Opco will maintain and operate the LIL on behalf of the Partnership.

The general partner of the Partnership is Labrador-Island Link General Partner Corporation (the General Partner or LIL GP), a wholly-owned subsidiary of Nalcor. Although the General Partner holds legal title to the assets, the Partnership is the beneficial owner and assumes all risks and rewards of the assets.

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 LP'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 these accounts in accordance with procedures set out in the LIL Project Finance Agreement (LIL PFA). Restricted cash also includes accounts administered by the Trustee of the LIL Construction Project Trust (IT) which are associated with the establishment of the IT.

LABRADOR - ISLAND LINK LIMITED PARTNERSHIP
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>	June 30 2015	December 31 2014
Receivables due from related parties	-	558
Other receivables	17,335	12,849
	17,335	13,407

Other receivables are comprised of input tax credits and 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	
	June 30 2015	December 31 2014
Cost		
Beginning balance	714,678	234,629
Additions	339,527	480,049
Ending balance	1,054,205	714,678

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 six months ended June 30, 2015, \$32.4 million (December 31, 2014 - \$55.8 million) of borrowing costs were capitalized. The effective interest rate of the debt is 3.83%. The Partnership also capitalized borrowing costs associated with the Limited A units and the Limited B units of \$9.6 million (December 31, 2014 - \$18.1 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 from the issue of long-term debt.

Details on the investments are as follows:

<i>(thousands of Canadian dollars)</i>	June 30 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%.	421,436	619,104
\$1,325.3 million Amortizing Fixed Rate Deposit Note, with interest paid at a rate of 1.6182% per annum	632,153	928,657
	1,128,589	1,622,761
Less: payments to be received within one year	853,526	934,320
Total long-term investments	275,063	688,441

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

7. ADVANCES

As at June 30, 2015, amounts recorded as advances consists 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.

8. LONG-TERM DEBT

Details of the long-term debt are as follows:

	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	June 30 2015	December 31 2014
<i>(thousands of Canadian dollars)</i>						
Tranche A	725,000	3.76	2013	2033	725,280	725,288
Tranche B	600,000	3.86	2013	2045	600,109	600,110
Tranche C	1,075,000	3.85	2013	2053	1,075,217	1,075,220
Total debentures	2,400,000				2,400,606	2,400,618

9. PARTNERSHIP UNITS LIABILITIES

9.1 Class A Limited Partnership Unit Liabilities

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

	Units	June 30 2015	Units	December 31 2014
<i>(thousands of Canadian dollars)</i>				
Class A limited partnership units liabilities at beginning of period	75	144,714	75	133,008
Contributions	-	7	-	-
Accrued interest	-	6,181	-	11,706
Class A limited partnership units liabilities at end of period	75	150,902	75	144,714

9.2 Class B Limited Partnership Unit Liabilities

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

	Units	June 30 2015	Units	December 31 2014
<i>(thousands of Canadian dollars)</i>				
Class B limited partnership units liabilities at beginning of period	25	79,403	25	72,980
Contributions	-	7,836	-	-
Accrued interest	-	3,393	-	6,423
Class B limited partnership units liabilities at end of period	25	90,632	25	79,403

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

10. NET FINANCE (INCOME) EXPENSE

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Three months ended		Six months ended	
	2015	2014	2015	2014
Finance income				
Interest on investments	4,955	8,830	10,966	17,863
Other interest income	1,387	497	2,517	899
	6,342	9,327	13,483	18,762
Finance expense				
Interest on long-term debt	22,947	23,000	45,899	45,952
Interest on partnership liabilities	4,864	4,469	9,574	8,798
Interest capitalized during construction	(21,469)	(18,142)	(41,990)	(35,988)
	6,342	9,327	13,483	18,762
Net finance (income) expense	-	-	-	-

11. FINANCIAL INSTRUMENTS

Fair Value

The estimated fair values of financial instruments as at June 30, 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 LP might receive or incur in actual market transactions.

As a significant number of LIL LP'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 LP 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 Partnership 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 June 30, 2015 and the year ended December 31, 2014.

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	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		June 30, 2015		December 31, 2014	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Cash and cash equivalents	1	1,912	1,912	1,904	1,904
Restricted cash	1	633,614	633,614	425,457	425,457
Trade and other receivables	1	17,335	17,335	13,407	13,407
Investments	2	1,128,589	1,133,403	1,622,761	1,623,626
Advances	2	16,921	16,921	8,952	8,952
Financial liabilities					
Trade and other payables	1	210,310	210,310	163,135	163,135
Long-term debt	2	2,400,606	2,889,340	2,400,618	2,871,521
Class A limited partnership units	3	150,902	150,902	144,714	144,714
Class B limited partnership units	3	90,632	90,632	79,403	79,403
Contributions	1	10	10	10	10

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.

The table below sets forth a summary of changes in fair value of the Partnership'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 A limited partnership units	(3,605)	3,553
Class B limited partnership units	(1,823)	1,800
Total	(5,428)	5,353

12. RELATED PARTY TRANSACTIONS

LIL LP 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 LP transacts are as follows:

Related Party	Relationship
LIL Holdco	Limited Partner holding 75 Class A limited partnership units of LIL LP
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
Muskat Falls Corporation	Wholly-owned subsidiary of Nalcor

13. COMMITMENTS AND CONTINGENCIES

- (a) The Partnership is required to make mandatory distributions in accordance with the Partnership Agreement. The amount of periodic distributions will be determined by the General Partner and will commence once construction of the LIL is complete.

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- (b) 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 IT's payment obligations to the Collateral Agent for the benefit of the Funding Trust.
- (c) As at June 30, 2015, the Partnership had outstanding commitments for construction costs related to the LIL of \$1,424.8 million (December 31, 2014 - \$1,478.8 million).

14. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Three months ended		Six months ended	
	2015	2014	2015	2014
Trade and other receivables	(9,812)	(8,011)	(3,928)	(8,207)
Prepayments	-	637	1	643
Trade and other payables	17,472	5,691	47,175	36,910
Changes in non-cash working capital balances	7,660	(1,683)	43,248	29,346
Interest received	6,276	10,909	13,367	20,191
Interest paid	45,901	42,114	45,903	42,116

15. COMPARATIVE FIGURES

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