

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

**LABRADOR - ISLAND LINK LIMITED PARTNERSHIP**  
**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>549,210</b>	234,629
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>2,804,377</b>	2,654,874
<b>LIABILITIES AND PARTNERS' EQUITY</b>			
Current liabilities			
Trade and other payables		<b>176,524</b>	40,305
<b>Total current liabilities</b>		<b>176,524</b>	40,305
Non-current liabilities			
Long-term debt	7	<b>2,400,625</b>	2,400,643
Deferred revenue		<b>8,000</b>	8,000
Class A limited partnership units	8	<b>141,671</b>	133,009
Class B limited partnership units	8	<b>77,732</b>	72,979
<b>Total liabilities</b>		<b>2,804,552</b>	2,654,936
Partners' equity			
Deficit		<b>(175)</b>	(62)
<b>Total partners' equity</b>		<b>(175)</b>	(62)
<b>Total liabilities and partners' equity</b>		<b>2,804,377</b>	2,654,874

Commitments and contingencies (Note 12)

*See accompanying notes*

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

	Notes	Three Months Ended		Nine Months Ended	
<i>For the period ended September 30 (thousands of Canadian dollars)</i>		2014	2013	2014	2013
Expenses		(5)	-	(113)	-
Operating costs		(5)	-	(113)	-
Loss for the period, being comprehensive loss for the period		(5)	-	(113)	-

*See accompanying notes*

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

<i>(thousands of Canadian dollars)</i>	Allocation to Class A Limited Partner	Allocation to Class B Limited Partner	Allocation to Class C Limited Partner	Allocation to General Partner	Total Deficit
<b>Balance at January 1, 2014</b>	<b>(37)</b>	<b>(25)</b>	-	-	<b>(62)</b>
<b>Total comprehensive loss for the period</b>	<b>(73)</b>	<b>(40)</b>	-	-	<b>(113)</b>
<b>Balance at September 30, 2014</b>	<b>(110)</b>	<b>(65)</b>	-	-	<b>(175)</b>
Balance at January 1, 2013	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	-	-
Balance at September 30, 2013	-	-	-	-	-

*See accompanying notes*

**LABRADOR - ISLAND LINK LIMITED PARTNERSHIP**  
**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		(5)	-	(113)	-
Adjusted for items not affecting cash flow					
Decrease in long-term prepaid		812	-	812	-
Accretion of long-term debt		(6)	-	(18)	-
Increase in advances		(8,983)	-	(8,983)	-
		<b>(8,182)</b>	-	<b>(8,302)</b>	-
Changes in non-cash working capital balances	13	<b>104,145</b>	7,803	<b>133,491</b>	15,286
Net cash from operating activities		<b>95,963</b>	7,803	<b>125,189</b>	15,286
Investing activities					
Additions to property, plant and equipment	4	<b>(156,837)</b>	(15,323)	<b>(301,166)</b>	(40,472)
Decrease in investments		<b>202,068</b>	-	<b>396,391</b>	-
Net cash from (used in) investing activities		<b>45,231</b>	(15,323)	<b>95,225</b>	(40,472)
Financing Activities					
Issue of Class B limited partnership units	8	-	-	-	67,731
Increase in restricted cash		<b>(141,148)</b>	-	<b>(220,386)</b>	-
Net cash (used in) from financing activities		<b>(141,148)</b>	-	<b>(220,386)</b>	67,731
Net increase (decrease) in cash		<b>46</b>	(7,520)	<b>28</b>	42,545
Cash and cash equivalents at beginning of period		<b>1,934</b>	50,065	<b>1,952</b>	-
Cash and cash equivalents at end of period		<b>1,980</b>	42,545	<b>1,980</b>	42,545

Supplementary cash flow information (Note 13)

*See accompanying notes*

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

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**1. DESCRIPTION OF BUSINESS**

Labrador-Island Link Limited Partnership (the Partnership or LIL LP) was formed under the laws of the Province of Newfoundland and Labrador on July 31, 2012. 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 (the 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 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 LP'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 Partnership's consolidated 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 LIMITED PARTNERSHIP**  
**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>234,629</b>	126,816
Additions	<b>314,581</b>	107,813
Ending balance	<b>549,210</b>	234,629

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%. The Partnership also capitalizes interest associated with the Limited Partnership Units. For the nine months ended September 30, 2014, interest capitalized on the Limited A Units was \$4.7 million (2013- \$nil) and interest capitalized on the Limited B units was \$8.7 million (2013 - \$nil). The interest capitalized on the Limited Partnership Units is non-cash additions to property, plant and equipment.

**5. 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:

	<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 LIMITED PARTNERSHIP**  
**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 A Limited Partnership Unit Liabilities**

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

	Units	September 30 2014	Units	December 31 2013
<i>(thousands of Canadian dollars)</i>				
Class A limited partnership unit liabilities at beginning of period	75	133,009	75	122,251
Accrued interest		8,662		10,758
Class A limited partnership unit liabilities at end of period	75	141,671	75	133,009

**8.2 Class B Limited Partnership Unit Liabilities**

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	25	77,732	25	72,979



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

**9. NET FINANCE INCOME AND COSTS**

<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
Finance income				
Interest on investments	<b>8,178</b>	-	<b>26,042</b>	-
Other interest income	<b>2,439</b>	-	<b>4,600</b>	-
	<b>10,617</b>	-	<b>30,642</b>	-
Finance costs				
Interest on partnership unit liabilities	<b>(4,615)</b>	-	<b>(13,415)</b>	-
Interest on long-term debt	<b>(24,530)</b>	-	<b>(71,850)</b>	-
	<b>(29,145)</b>	-	<b>(85,265)</b>	-
Interest capitalized during construction	<b>18,528</b>	-	<b>54,623</b>	-
Net finance costs	-	-	-	-

**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 Partnership might receive or incur in actual market transactions.

As a significant number of the Partnership'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 Partnership 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 September 30, 2014 and the year ended December 31, 2013.

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

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

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>(thousands of Canadian dollars)</i>		September 30, 2014		December 31, 2013	
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	176,524	176,524	40,305	40,305
Long-term debt	2	2,400,625	2,700,605	2,400,643	2,437,351
Class A limited partnership units	3	141,671	141,671	133,009	133,009
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.

The table below sets forth a summary of changes in fair value of the Partnership's level 3 financial liabilities given a one percent change in the discount rate applied to the future cash flows:

<i>(thousands of Canadian dollars)</i>	1% increase in discount rate	1% decrease in discount rate
Class A limited partnership units	(29,679)	35,509
Class B limited partnership units	(35,921)	44,192
Total	(65,600)	79,701

**11. RELATED PARTY TRANSACTIONS**

The Partnership 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 Partnership 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
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

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

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**12. COMMITMENTS AND CONTINGENCIES**

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.

As part of the IT 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 Project Trust's payment obligations to the collateral agent for the benefit of the Funding Trust.

As at September 30, 2014, the Partnership 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
Other receivables	<b>4,836</b>	587	<b>(3,371)</b>	(1,476)
Prepayments	-	-	<b>643</b>	-
Trade and other payables	<b>99,309</b>	7,216	<b>136,219</b>	16,762
Changes in non-cash working capital balances	<b>104,145</b>	7,803	<b>133,491</b>	15,286
Interest received	<b>8,806</b>	-	<b>28,997</b>	-
Interest paid	<b>2</b>	-	<b>42,118</b>	-

**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.