

LABRADOR - ISLAND LINK LIMITED PARTNERSHIP
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
September 30, 2016
(Unaudited)

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

<i>As at (thousands of Canadian dollars)</i>	Notes	September 30 2016	December 31 2015
ASSETS			
Current assets			
Cash and cash equivalents		5	20
Restricted cash		885,207	768,187
Current portion of long-term investments	5	151,080	659,491
Trade and other receivables		16,331	21,958
Current portion of advances	6	14,579	12,830
Prepayments		2,184	2,184
Total current assets		1,069,386	1,464,670
Non-current assets			
Property, plant and equipment	3	2,432,243	1,608,599
Intangible assets	4	267	141
Long-term investments	5	-	28,951
Advances	6	-	3,219
Long-term prepayments		1,794	3,432
Total assets		3,503,690	3,109,012
LIABILITIES AND DEFICIENCY			
Current liabilities			
Trade and other payables		578,387	326,157
Non-current liabilities			
Long-term debt	7	2,400,575	2,400,593
Deferred revenue		9,500	9,500
Class A limited partnership units	8	193,293	168,950
Class B limited partnership units	8	325,362	207,396
Contributions		10	10
Total liabilities		3,507,127	3,112,606
Partners' deficit			
Deficit		(3,437)	(3,594)
Total deficiency		(3,437)	(3,594)
Total liabilities and deficiency		3,503,690	3,109,012

Commitments and contingencies (Note 13)

Subsequent event (Note 15)

See accompanying notes

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

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Nine months ended	
		2016	2015	2016	2015
Expenses					
Operating costs		267	142	435	398
Other (income) expense	10	(4)	-	(592)	-
Total comprehensive (loss) income for the period		(263)	(142)	157	(398)

See accompanying notes

LABRADOR - ISLAND LINK LIMITED PARTNERSHIP
CONSOLIDATED STATEMENT OF CHANGES IN DEFICIENCY
(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, 2016	(1,791)	(1,803)	(3,594)
Total comprehensive income for the period	59	98	157
Balance at September 30, 2016	(1,732)	(1,705)	(3,437)
Balance at January 1, 2015	(591)	(329)	(920)
Total comprehensive loss for the period	(202)	(196)	(398)
Balance at September 30, 2015	(793)	(525)	(1,318)

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

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Nine months ended	
		2016	2015	2016	2015
Cash provided by (used in)					
Operating activities					
(Loss) profit for the period		(263)	(142)	157	(398)
Adjusted for items not involving a cash flow:					
Amortization of long-term prepayments		546	546	1,638	1,638
Accretion of long-term debt		(6)	(6)	(18)	(18)
Decrease (increase) in advances	6	233	285	1,470	(7,684)
Changes in non-cash working capital balances	14	24	23	(13)	34
Net cash provided from (used in) operating activities		534	706	3,234	(6,428)
Investing activities					
Additions to property, plant and equipment	3	(349,490)	(298,149)	(796,293)	(628,102)
Additions to intangible assets	4	(75)	-	(360)	-
Decrease in investments	5	123,983	201,915	537,362	696,087
Changes in non-cash working capital balances	14	184,791	151,995	257,870	195,232
Net cash (used in) provided from investing activities		(40,791)	55,761	(1,421)	263,217
Financing activities					
Increase in restricted cash		(1,276)	(120,174)	(117,020)	(328,331)
Increase in Class A limited partnership units	8	4,909	2,853	13,417	2,860
Increase in Class B limited partnership units	8	36,624	58,963	101,775	66,799
Net cash provided from (used in) financing activities		40,257	(58,358)	(1,828)	(258,672)
Net decrease in cash and cash equivalents		-	(1,891)	(15)	(1,883)
Cash and cash equivalents, beginning of period		5	1,912	20	1,904
Cash and cash equivalents, end of period		5	21	5	21
Interest received		2,659	5,287	9,802	18,654
Interest paid		2	3	45,909	45,906

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 at 500 Columbus Drive, St. John's, Newfoundland and Labrador, A1B 0C9, Canada.

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 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.

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.

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 LP'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 the General Partner on November 10, 2016.

2.2 Basis of Consolidation

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

LABRADOR - ISLAND LINK LIMITED PARTNERSHIP
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	714,545
Additions	894,054
Balance at December 31, 2015	1,608,599
Additions	823,644
Balance at September 30, 2016	2,432,243
Carrying value	
Balance at January 1, 2015	714,545
Balance at December 31, 2015	1,608,599
Balance at September 30, 2016	2,432,243

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 September 30, 2016, \$59.0 million (December 31, 2015 - \$68.4 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 \$27.1 million (December 31, 2015 - \$22.5 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	360
Balance at September 30, 2016	1,737
Amortization	
Balance at January 1, 2015	962
Amortization	274
Balance at December 31, 2015	1,236
Amortization	234
Balance at September 30, 2016	1,470
Carrying value	
Balance at January 1, 2015	133
Balance at December 31, 2015	141
Balance at September 30, 2016	267

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

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).

<i>As at (thousands of Canadian dollars)</i>	Year of Maturity	September 30 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	30,432	245,377
\$1,325.3 million Amortizing Fixed Rate Deposit Note, with interest paid at a rate of 1.6182% per annum	2016	45,648	368,065
Long-term investments, end of period		151,080	688,442
Less: redemptions to be received within one year		151,080	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>	September 30 2016	December 31 2015
Total advances	14,579	16,049
Less: current portion	14,579	12,830
Total long-term advances	-	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	September 30 2016	December 31 2015
Tranche A	725,000	3.76	2013	2033	725,261	725,272
Tranche B	600,000	3.86	2013	2045	600,104	600,107
Tranche C	1,075,000	3.85	2013	2053	1,075,210	1,075,214
Total debentures	2,400,000				2,400,575	2,400,593

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

8. LIMITED PARTNERSHIP UNITS

Debt and equity instruments issued by the Partnership 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.

The Partnership has four classes of units; Class A, Class B, Class C and the General Partner unit. The Class A and B unit holders and the General Partner are each entitled to voting rights, mandatory distributions and allocations of profit and loss as provided by the terms of the Partnership Agreement. The Class C unit holder is not entitled to voting rights, distributions or allocations of profit and loss, but may share in the remaining assets of the Partnership in a liquidation after full recovery of the outstanding capital accounts of the Limited A and Limited B units.

8.1 Description of the Class A and Class B Limited Partnership Units

The Class A and Class B limited partnership units issued to the limited partners represent LIL Holdco's and Emera NL's interests in the Partnership, respectively. 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.

8.2 Class A Limited Partnership Units

	September 30		December 31	
<i>As at (thousands of Canadian dollars)</i>	Units	2016	Units	2015
Class A limited partnership units, beginning of period	75	168,950	75	144,714
Contributions	-	13,417	-	11,331
Accrued interest	-	10,926	-	12,905
Class A limited partnership units, end of period	75	193,293	75	168,950

8.3 Class B Limited Partnership Units

	September 30		December 31	
<i>As at (thousands of Canadian dollars)</i>	Units	2016	Units	2015
Class B limited partnership units, beginning of period	25	207,396	25	79,403
Contributions	-	101,775	-	118,443
Accrued interest	-	16,191	-	9,550
Class B limited partnership units, end of period	25	325,362	25	207,396

9. NET FINANCE (INCOME) EXPENSE

	Three months ended		Nine months ended	
<i>For the period ended September 30 (thousands of Canadian dollars)</i>	2016	2015	2016	2015
Finance income				
Interest on investments	828	3,830	4,657	14,796
Other interest income	1,855	1,482	5,210	3,999
	2,683	5,312	9,867	18,795
Finance expense				
Interest on long-term debt	22,952	22,952	68,852	68,851
Interest on limited partnership units	9,489	5,721	27,117	15,295
	32,441	28,673	95,969	84,146
Interest capitalized during construction	(29,758)	(23,361)	(86,102)	(65,351)
	2,683	5,312	9,867	18,795
Net finance (income) expense	-	-	-	-

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10. OTHER (INCOME) EXPENSE

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2016	2015	2016	2015
Realized foreign exchange loss (gain)	1	-	(239)	-
Unrealized foreign exchange gain	(5)	-	(353)	-
Other (income) expense	(4)	-	(592)	-

11. FINANCIAL INSTRUMENTS

Fair Value

The estimated fair values of financial instruments as at September 30, 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 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 measurements during the periods ended September 30, 2016 and December 31, 2015.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>(thousands of Canadian dollars)</i>		September 30, 2016		December 31, 2015	
Financial assets					
Investments	2	151,080	151,101	688,442	689,718
Financial liabilities					
Long-term debt	2	2,400,575	3,071,004	2,400,593	2,858,272
Class A limited partnership units	3	193,293	193,293	168,950	168,950
Class B limited partnership units	3	325,362	325,362	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.

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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 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	(6,116)	5,962
Class B limited partnership units	(4,655)	4,582
Total	(10,771)	10,544

12. RELATED PARTY TRANSACTIONS

LIL LP enters into various transactions with its partner 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
Labrador Transmission Corporation	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	Wholly-owned subsidiary of Nalcor
Muskkrat Falls Corporation	Wholly-owned subsidiary of Nalcor
Labrador-Island Link Funding Trust (LIL Funding Trust)	Party to the IT Project Finance Agreement (IT PFA)

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

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.
- (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 LIL Funding Trust.
- (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) Outstanding commitments for capital projects, total approximately \$821.5 million as at September 30, 2016 (2015 - \$1,276.2 million).

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

14. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2016	2015	2016	2015
Trade and other receivables	(1,357)	1,721	5,627	(2,207)
Prepayments	-	-	-	1
Trade and other payables	186,172	150,297	252,230	197,472
Changes in non-cash working capital balances	184,815	152,018	257,857	195,266
Related to:				
Operating activities	24	23	(13)	34
Investing activities	184,791	151,995	257,870	195,232
	184,815	152,018	257,857	195,266

15. SUBSEQUENT EVENT

On November 3, 2016 the Government of Canada announced a commitment to provide additional loan guarantees of up to \$2.9 billion to support additional borrowings for the components of the Lower Churchill projects led by Nalcor Energy. The specific conditions of this support will be finalized by Canada, the Government of Newfoundland and Labrador and Nalcor in the near future.