

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

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

<i>As at (thousands of Canadian dollars)</i>	Notes	June 30 2016	December 31 2015
ASSETS			
Current assets			
Cash and cash equivalents		5	20
Restricted cash		883,931	768,187
Current portion of long-term investments	5	275,063	659,491
Trade and other receivables		14,974	21,958
Current portion of advances	6	14,812	12,830
Prepayments		2,184	2,184
Total current assets		1,190,969	1,464,670
Non-current assets			
Property, plant and equipment	3	2,073,194	1,608,599
Intangible assets	4	262	141
Long-term investments	5	-	28,951
Advances	6	-	3,219
Long-term prepayments		2,340	3,432
Total assets		3,266,765	3,109,012
LIABILITIES AND DEFICIENCY			
Current liabilities			
Trade and other payables		392,215	326,157
Non-current liabilities			
Long-term debt	7	2,400,581	2,400,593
Deferred revenue		9,500	9,500
Class A limited partnership units	8	184,793	168,950
Class B limited partnership units	8	282,840	207,396
Contributions		10	10
Total liabilities		3,269,939	3,112,606
Partners' deficit			
Deficit		(3,174)	(3,594)
Total deficiency		(3,174)	(3,594)
Total liabilities and deficiency		3,266,765	3,109,012

Commitments and contingencies (Note 13)

See accompanying notes

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

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Six months ended	
		2016	2015	2016	2015
Expenses					
Operating costs		72	175	168	256
Other (income) expense	10	(142)	-	(588)	-
Total comprehensive income (loss) for the period		70	(175)	420	(256)

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	166	254	420
Balance at June 30, 2016	(1,625)	(1,549)	(3,174)
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)

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	
		2016	2015	2016	2015
Cash provided by (used in)					
Operating activities					
Profit (loss) for the period		70	(175)	420	(256)
Adjusted for items not involving a cash flow:					
Amortization of long-term prepayments		546	546	1,092	1,092
Accretion of long-term debt		(6)	(6)	(12)	(12)
Decrease (increase) in advances	6	588	227	1,237	(7,969)
Changes in non-cash working capital balances	14	(9)	46	(37)	11
Net cash provided from (used in) operating activities		1,189	638	2,700	(7,134)
Investing activities					
Additions to property, plant and equipment	3	(268,529)	(194,872)	(446,803)	(329,953)
Additions to intangible assets	4	(196)	-	(285)	-
Decrease in investments	5	240,542	281,508	413,379	494,172
Changes in non-cash working capital balances	14	78,766	7,614	73,079	43,237
Net cash provided from investing activities		50,583	94,250	39,370	207,456
Financing activities					
Increase in restricted cash		(86,321)	(102,727)	(115,744)	(208,157)
Increase in Class A limited partnership units	8	7,709	7	8,508	7
Increase in Class B limited partnership units	8	26,840	7,836	65,151	7,836
Net cash used in financing activities		(51,772)	(94,884)	(42,085)	(200,314)
Net increase (decrease) in cash and cash equivalents		-	4	(15)	8
Cash and cash equivalents, beginning of period		5	1,908	20	1,904
Cash and cash equivalents, end of period		5	1,912	5	1,912
Interest received		3,284	6,276	7,143	13,367
Interest paid		45,904	45,901	45,907	45,903

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 August 9, 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	464,595
Balance at June 30, 2016	2,073,194
Carrying value	
Balance at January 1, 2015	714,545
Balance at December 31, 2015	1,608,599
Balance at June 30, 2016	2,073,194

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 June 30, 2016, \$38.7 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 \$17.6 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	285
Balance at June 30, 2016	1,662
Amortization	
Balance at January 1, 2015	962
Amortization	274
Balance at December 31, 2015	1,236
Amortization	164
Balance at June 30, 2016	1,400
Carrying value	
Balance at January 1, 2015	133
Balance at December 31, 2015	141
Balance at June 30, 2016	262

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	June 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	80,025	245,377
\$1,325.3 million Amortizing Fixed Rate Deposit Note, with interest paid at a rate of 1.6182% per annum	2016	120,038	368,065
Long-term investments, end of period		275,063	688,442
Less: redemptions to be received within one year		275,063	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>	June 30 2016	December 31 2015
Total advances	14,812	16,049
Less: current portion	14,812	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	June 30 2016	December 31 2015
Tranche A	725,000	3.76	2013	2033	725,265	725,272
Tranche B	600,000	3.86	2013	2045	600,105	600,107
Tranche C	1,075,000	3.85	2013	2053	1,075,211	1,075,214
Total debentures	2,400,000				2,400,581	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

	June 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	-	8,508	-	11,331
Accrued interest	-	7,335	-	12,905
Class A limited partnership units, end of period	75	184,793	75	168,950

8.3 Class B Limited Partnership Units

	June 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	-	65,151	-	118,443
Accrued interest	-	10,293	-	9,550
Class B limited partnership units, end of period	25	282,840	25	207,396

9. NET FINANCE (INCOME) EXPENSE

	Three months ended		Six months ended	
<i>For the period ended June 30 (thousands of Canadian dollars)</i>	2016	2015	2016	2015
Finance income				
Interest on investments	1,572	4,955	3,829	10,966
Other interest income	1,723	1,387	3,355	2,517
	3,295	6,342	7,184	13,483
Finance expense				
Interest on long-term debt	22,948	22,947	45,900	45,899
Interest on limited partnership units	9,291	4,864	17,628	9,574
	32,239	27,811	63,528	55,473
Interest capitalized during construction	(28,944)	(21,469)	(56,344)	(41,990)
	3,295	6,342	7,184	13,483
Net finance (income) expense	-	-	-	-

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10. OTHER (INCOME) EXPENSE

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Three months ended		Six months ended	
	2016	2015	2016	2015
Realized foreign exchange gain	(50)	-	(240)	-
Unrealized foreign exchange gain	(92)	-	(348)	-
Other (income) expense	(142)	-	(588)	-

11. FINANCIAL INSTRUMENTS

Fair Value

The estimated fair values of financial instruments as at June 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 June 30, 2016 and December 31, 2015.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>(thousands of Canadian dollars)</i>		June 30, 2016		December 31, 2015	
Financial assets					
Investments	2	275,063	275,241	688,442	689,718
Financial liabilities					
Long-term debt	2	2,400,581	3,038,499	2,400,593	2,858,272
Class A limited partnership units	3	184,793	184,793	168,950	168,950
Class B limited partnership units	3	282,840	282,840	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	(5,556)	5,428
Class B limited partnership units	(3,858)	3,800
Total	(9,414)	9,228

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 (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
Muskat Falls Corporation (Muskat Falls)	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.

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

(d) Outstanding commitments for capital projects total approximately \$1,414.6 million (December 31, 2015 - \$1,276.8 million).

14. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Three months ended		Six months ended	
	2016	2015	2016	2015
Trade and other receivables	3,100	(9,812)	6,984	(3,928)
Prepayments	-	-	-	1
Trade and other payables	75,657	17,472	66,058	47,175
Changes in non-cash working capital balances	78,757	7,660	73,042	43,248
Related to:				
Operating activities	(9)	46	(37)	11
Investing activities	78,766	7,614	73,079	43,237
	78,757	7,660	73,042	43,248