

LABRADOR - ISLAND LINK OPERATING CORPORATION
CONDENSED INTERIM FINANCIAL STATEMENTS
March 31, 2015
(Unaudited)

DIRECTORS

GERALD SHORTALL
Chartered Accountant
Corporate Director

EDMUND MARTIN
President and Chief Executive Officer

CHRIS LOOMIS
Professor of Pharmacology, School of Pharmacy
and Faculty of Medicine, Memorial University of
Newfoundland and Labrador

DESMOND WHALEN
Medical Student, Faculty of Medicine
Memorial University of Newfoundland and Labrador

LEO ABBASS
Corporate Director

OFFICERS

GERALD SHORTALL
Chairperson

EDMUND MARTIN
President and Chief Executive Officer

GILBERT BENNETT
Vice President, Lower Churchill Project

DERRICK STURGE
Vice President, Finance and Chief Financial Officer

WAYNE CHAMBERLAIN
General Counsel and Corporate Secretary

PETER HICKMAN
Assistant Corporate Secretary

JAMES MEANEY
General Manager, Finance

AUBURN WARREN
General Manager, Commercial, Treasury and Risk

HEAD AND CORPORATE OFFICE

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

<i>As at (thousands of Canadian dollars)</i>	Notes	March 31 2015	December 31 2014
ASSETS			
Current assets			
Restricted cash		1,050	1,048
Short-term investments		10	10
Other receivables		1	1
Total current assets		1,061	1,059
Non-current assets			
Prepaid rent	3	8,000	8,000
Total assets		9,061	9,059
LIABILITIES AND SHAREHOLDER'S EQUITY			
Non-current liabilities			
Trade and other payables		96	87
Total liabilities		96	87
Shareholder's equity			
Share capital		1	1
Contributed capital		9,050	9,050
Deficit		(86)	(79)
Total shareholder's equity		8,965	8,972
Total liabilities and shareholder's equity		9,061	9,059

Commitments and contingencies (Note 6)

See accompanying notes

LABRADOR - ISLAND LINK OPERATING CORPORATION
STATEMENT OF COMPREHENSIVE LOSS
(Unaudited)

	Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	2015	2014
Revenue		
Interest income	2	-
Expenses		
Operating costs	(9)	(43)
Loss for the period, being the comprehensive loss for the period	(7)	(43)

See accompanying notes

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

<i>(thousands of Canadian dollars)</i>	Share Capital	Contributed Capital	Deficit	Total
Balance at January 1, 2015	1	9,050	(79)	8,972
Loss for the period, being the comprehensive loss for the period	-	-	(7)	(7)
Balance at March 31, 2015	1	9,050	(86)	8,965
Balance at January 1, 2014	1	9,050	(38)	9,013
Loss for the period, being the comprehensive loss for the period	-	-	(43)	(43)
Balance at March 31, 2014	1	9,050	(81)	8,970

See accompanying notes

LABRADOR - ISLAND LINK OPERATING CORPORATION
STATEMENT OF CASH FLOWS
(Unaudited)

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Notes	Three months ended	
		2015	2014
Cash provided from (used in)			
Operating activities			
Loss for the period		(7)	(43)
Changes in non-cash working capital balances	7	9	1,083
Net cash provided from operating activities		2	1,040
Financing activities			
Increase in restricted cash		(2)	(1,040)
Net cash used in financing activities		(2)	(1,040)
Net change in cash and cash equivalents		-	-
Cash and cash equivalents, beginning of period		-	10
Cash and cash equivalents, end of period		-	10

Supplementary cash flow information (Note 7)

See accompanying notes

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

1. DESCRIPTION OF BUSINESS

Labrador-Island Link Operating Corporation (LIL Opco or the Company), was incorporated on November 13, 2013 under the laws of Newfoundland and Labrador to operate and maintain the Labrador-Island Link (LIL). The LIL consists of equipment and facilities constructed between the Labrador Transmission Assets (LTA) and the Newfoundland and Labrador Island Interconnected System. The head office of LIL Opco is located in St. John's, Newfoundland and Labrador.

LIL Opco is a 100% owned subsidiary of Nalcor Energy (Nalcor).

LIL Opco has entered into the LIL Lease Agreement with the Labrador-Island Link Limited Partnership (LIL LP) and the Transmission Funding Agreement (TFA) with Newfoundland and Labrador Hydro (Hydro). As a result of these agreements, LIL Opco will be the transmission owner for purposes of offering transmission service to Hydro over the LIL.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance and Basis of Measurement

These condensed 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 interim financial statements do not include all of the disclosures normally found in LIL Opco's annual audited financial statements and should be read in conjunction with the annual audited financial statements.

These condensed 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. PREPAID RENT

Under the terms and conditions of the LIL Lease Agreement, LIL Opco shall have, at its sole discretion and option, the right to prepay all or a portion of the rent due and payable for future year(s) to LIL LP. The amount of prepaid rent as of March 31, 2015 was \$8.0 million (December 31, 2013 - \$8.0 million). The prepaid rent will be applied to rent following in-service of the LIL.

4. FINANCIAL INSTRUMENTS

Fair Value

The estimated fair values of financial instruments as at March 31, 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 Opco might receive or incur in actual market transactions.

As a significant number of LIL Opco'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 Opco 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.

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

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 measurement during the period ended March 31, 2015 and the year ended December 31, 2014.

As of March 31, 2015 and December 31, 2014, the Company did not have any level 2 or 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		March 31, 2015		December 31, 2014	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Restricted cash	1	1,050	1,050	1,048	1,048
Short-term investments	1	10	10	10	10
Other receivables	1	1	1	1	1
Financial liabilities					
Trade and other payables	1	96	96	87	87

The fair value of restricted cash, short-term investments, other receivables and trade and other payables approximate their carrying values due to their short-term maturity.

5. RELATED PARTY TRANSACTIONS

LIL Opco 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 Opco transacts are as follows:

Related Party	Relationship
Nalcor	Parent of LIL Opco
Newfoundland and Labrador Hydro (Hydro)	Wholly-owned subsidiary of Nalcor
LIL LP	Limited partnership whose general partner and holder of Class A units are wholly-owned subsidiaries of Nalcor
Lower Churchill Management Corporation	Wholly-owned subsidiary of Nalcor Energy

6. COMMITMENTS AND CONTINGENCIES

On November 30, 2013, LIL Opco entered into the LIL Lease Agreement to lease the LIL assets from LIL LP until January 1, 2075. Under the terms of the lease, LIL Opco assumes the responsibility for operating and maintaining the LIL and will make rent payments to LIL LP as consideration for the LIL LP leasing, sub-leasing, assigning or licensing as applicable, all assets and rights associated with the LIL. The rent payments will be sufficient to recover all costs associated with the LIL over the term of its service life. LIL Opco's obligation to make rent payments to LIL LP is absolute, unconditional and irrevocable until the initial financing obtained by LIL LP has been paid in full.

LABRADOR - ISLAND LINK OPERATING CORPORATION
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In conjunction with the LIL Lease, LIL Opco also entered into the TFA with Hydro. The TFA payments will be sufficient for LIL Opco to recover all costs associated with rent payments under the LIL Lease, all costs associated with operating and maintenance incurred by LIL Opco and an administrative fee of \$30,000 per year. The purpose of the TFA is to ensure LIL Opco can meet its obligations under the LIL Lease. Hydro's obligation to make payments under the TFA is absolute, unconditional and irrevocable once the LIL is commissioned.

LIL Opco has irrevocably, absolutely and unconditionally guaranteed the due and timely payment of all obligations of LIL LP in accordance with the LIL Project Finance Agreement (LIL PFA), dated November 30, 2013. This guarantee is that of payment and not merely a guarantee of collection. LIL Opco has also granted first ranking liens on all its respective present and future assets other than excluded deposits and contributed surplus.

7. SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended	
	March 31	March 31
<i>(thousands of Canadian dollars)</i>	2015	2014
Other receivables	-	1,040
Trade and other payables	9	43
Changes in non-cash working capital balances	9	1,083
Interest received	2	-