

**LABRADOR - ISLAND LINK OPERATING CORPORATION**  
**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**March 31, 2016**  
**(Unaudited)**

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

<i>As at (thousands of Canadian dollars)</i>	<b>March 31</b>	December 31
	<b>2016</b>	2015
<b>ASSETS</b>		
Current assets		
Restricted cash	<b>2</b>	-
Short-term investments	<b>10</b>	10
Other receivables	<b>195</b>	196
<b>Total current assets</b>	<b>207</b>	206
Non-current assets		
Prepaid rent	<b>9,500</b>	9,500
<b>Total assets</b>	<b>9,707</b>	9,706
<b>LIABILITIES AND EQUITY</b>		
Non-current liabilities		
Trade and other payables	<b>111</b>	103
<b>Total liabilities</b>	<b>111</b>	103
Shareholder's equity		
Share capital	<b>1</b>	1
Shareholder contributions	<b>9,688</b>	9,688
Deficit	<b>(93)</b>	(86)
<b>Total equity</b>	<b>9,596</b>	9,603
<b>Total liabilities and equity</b>	<b>9,707</b>	9,706

Commitments and contingencies (Note 5)

*See accompanying notes*

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

	<b>Three months ended</b>	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	<b>2016</b>	<b>2015</b>
Operating costs	<b>7</b>	<b>9</b>
Net finance (income) expense	<b>-</b>	<b>(2)</b>
<b>Total comprehensive loss for the period</b>	<b>(7)</b>	<b>(7)</b>

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

<i>(thousands of Canadian dollars)</i>	Share Capital	Shareholder Contributions	Deficit	Total
<b>Balance at January 1, 2016</b>	<b>1</b>	<b>9,688</b>	<b>(86)</b>	<b>9,603</b>
<b>Total comprehensive loss for the period</b>	<b>-</b>	<b>-</b>	<b>(7)</b>	<b>(7)</b>
<b>Balance at March 31, 2016</b>	<b>1</b>	<b>9,688</b>	<b>(93)</b>	<b>9,596</b>
Balance at January 1, 2015	1	9,050	(79)	8,972
Total comprehensive loss for the period	-	-	(7)	(7)
Balance at March 31, 2015	1	9,050	(86)	8,965

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

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Notes	<b>Three months ended</b>	
		<b>2016</b>	2015
Cash provided from (used in)			
Operating activities			
Loss for the period		<b>(7)</b>	(7)
Changes in non-cash working capital balances	6	<b>9</b>	9
<b>Net cash provided from operating activities</b>		<b>2</b>	2
Financing activities			
Increase in restricted cash		<b>(2)</b>	(2)
<b>Net cash used in financing activities</b>		<b>(2)</b>	(2)
Net increase (decrease) in cash and cash equivalents		-	-
Cash and cash equivalents, beginning of period		-	-
Cash and cash equivalents, end of period		-	-
Interest received		-	2

*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. LIL Opco is a 100% owned subsidiary of Nalcor Energy (Nalcor). LIL Opco's head office is located at 500 Columbus Drive, St. John's, Newfoundland and Labrador, A1B 0M5, Canada.

LIL Opco was formed 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.

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 during the term of the TFA.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Statement of Compliance and Basis of Measurement**

These condensed 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 financial statements for the year ended December 31, 2015.

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. The condensed interim financial statements were approved by LIL Opco's Board of Directors on May 12, 2016.

**3. FINANCIAL INSTRUMENTS**

**Fair Value**

The estimated fair values of financial instruments as at March 31, 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 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.

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).

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

---

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 measurements during the periods ended March 31, 2016 and December 31, 2015.

As at March 31, 2016 and December 31, 2015, the Company did not have any Level 2 or Level 3 instruments. The fair values of restricted cash, short-term investments and other receivables approximate their carrying values due to their short-term maturity. The fair value of trade and other payables approximates its carrying value due to the underlying nature of the balances with its intercompany counterparties.

**4. 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	100% shareholder of LIL Opco
Hydro	Wholly-owned subsidiary of Nalcor
Lower Churchill Management Corporation	Wholly-owned subsidiary of Nalcor
LIL LP	Limited partnership whose general partner and holder of Class A units are wholly-owned subsidiaries of Nalcor
LIL Construction Project Trust	Party to the LIL Project Finance Agreement (LIL PFA) and the IT Project Finance Agreement (IT PFA)
Labrador-Island Link Funding Trust	Party to the IT PFA

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

- (a) LIL Opco has related party payables which consist of various intercompany operating costs.
- (b) As at March 31, 2016, LIL Opco has prepaid \$9.5 million (December 31, 2015 - \$9.5 million) in rent for future services of the LIL. 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 a future year(s) to LIL LP. The prepaid rent will be applied to rent following in-service of the LIL.

**5. COMMITMENTS AND CONTINGENCIES**

- (a) 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**  
**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)**

---

- (b) 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.
- (c) LIL Opco has irrevocably, absolutely and unconditionally guaranteed the due and timely payment of all obligations of LIL LP in accordance with the 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.

**6. SUPPLEMENTARY CASH FLOW INFORMATION**

	<b>Three months ended</b>	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	<b>2016</b>	<b>2015</b>
Other receivables	<b>1</b>	-
Trade and other payables	<b>8</b>	9
Changes in non-cash working capital balances	<b>9</b>	9