

LABRADOR - ISLAND LINK OPERATING CORPORATION
CONDENSED INTERIM FINANCIAL STATEMENTS
September 30, 2014
(Unaudited)

BOARD OF DIRECTORS

GERALD SHORTALL
Chairperson
Chartered Accountant
Corporate Director

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President and Chief Executive Officer

ALLAN HAWKINS *
Mayor, Grand Falls Windsor

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

DESMOND WHALEN
Medical Student
Memorial University of Newfoundland and Labrador

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Vice-President

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 & Risk

HEAD OFFICE

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St. John's, NL
Canada A1B 4K7

*Resigned October 16th, 2014

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

<i>As at (thousands of Canadian dollars)</i>	Notes	September 30 2014	December 31 2013
ASSETS			
Current assets			
Cash and cash equivalents		10	10
Restricted cash		1,045	-
Other receivables		1	1,041
Total current assets		1,056	1,051
Prepaid rent	3	8,000	8,000
Total assets		9,056	9,051
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Trade and other payables		68	38
Total liabilities		68	38
Shareholder's equity			
Share capital		1	1
Contributed capital		9,050	9,050
Deficit		(63)	(38)
Total shareholder's equity		8,988	9,013
Total liabilities and shareholder's equity		9,056	9,051

Commitments and contingencies (Note 6)

See accompanying notes

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

	Three Months Ended	Nine Months Ended
<i>For the period ended September 30 (thousands of Canadian dollars)</i>	2014	2014
	(Note 1)	(Note 1)
Operating costs	23	(25)
Expenses	23	(25)
Income (loss) for the period, being total comprehensive loss for the period	23	(25)

See accompanying notes

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

(thousands of Canadian dollars)

	Share Capital	Contributed Capital	Deficit	Total
Balance at January 1, 2014	1	9,050	(38)	9,013
Total comprehensive loss for the period	-	-	(25)	(25)
Balance at September 30, 2014	1	9,050	(63)	8,988

See accompanying notes

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

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Notes	Three Months Ended 2014	Nine Months Ended 2014
		(Note 1)	(Note 1)
Cash provided by (used in)			
Operating activities			
Profit (loss) for the period		23	(25)
Changes in non-cash working capital balances	7	(21)	1,070
Net cash from operating activities		2	1,045
Financing activities			
Increase in restricted cash		(2)	(1,045)
Net cash used in financing activities		(2)	(1,045)
Net increase in cash and cash equivalents		-	-
Cash and cash equivalents at beginning of period		10	10
Cash and cash equivalents at end of period		10	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 under the laws of Newfoundland and Labrador on November 13, 2013 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.

LIL Opco is a 100% owned subsidiary of Nalcor Energy (Nalcor). The head office of LIL Opco is located in St. John's, Newfoundland and Labrador.

As LIL Opco was incorporated in November 2013, no comparative information has been presented for statements of comprehensive loss, changes in equity and cash flows and related note disclosures.

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 as issued by the International Accounting Standards Board (IASB).

These condensed interim 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 Financial Statements for the period ended December 31, 2013. 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 except as detailed in the accounting policies disclosed in the Company's financial statements for the period ended December 31, 2013. The condensed interim financial statements are presented in Canadian dollars and 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 September 30, 2014 was \$8.0 million (December 31, 2013 - \$8.0 million). The prepaid rent will be applied to rent following in-service of the LIL.

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

4. 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 LIL Opco might receive or incur in actual market transactions.

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 includes 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 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 September 30, 2014 and for the year ended December 31, 2013.

As of September 30, 2014 and December 31, 2013, the Company did not have any level 2 or 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		September 30, 2014		December 31, 2013	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Cash and cash equivalents	1	10	10	10	10
Restricted cash	1	1,045	1,045	-	-
Other receivables	1	1	1	1,041	1,041
Financial liabilities					
Trade and other payables	1	68	68	38	38

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

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

5. RELATED PARTY TRANSACTIONS

LIL Opco enters into various transactions with its parents 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	100% 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 (LCMC)	100% owned subsidiary of Nalcor Energy

6. COMMITMENTS AND CONTINGENCIES

LIL Opco has received claims with respect to miscellaneous matters. Although the outcome of such actions cannot be predicted with certainty, Management currently believes LIL Opco'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 the financial position of LIL Opco.

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 the 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 the LIL LP has been paid in full.

In conjunction with the LIL Lease, LIL Opco also entered into the Transmission Funding Agreement (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 operating and maintenance costs 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.

LIL Opco has irrevocably, absolutely and unconditionally guaranteed the due and timely payment of all obligations of the 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.

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

7. SUPPLEMENTARY CASH FLOW INFORMATION

	Three Months Ended	Nine Months Ended
<i>For the period ended September 30 (thousands of Canadian dollars)</i>	2014	2014
	(Note 1)	(Note 1)
Other receivables	-	1,040
Trade and other payables	(21)	30
Changes in non-cash working capital balances	(21)	1,070
Interest received	3	6