

LABRADOR - ISLAND LINK LIMITED PARTNERSHIP
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
March 31, 2017
(Unaudited)

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

<i>As at (thousands of Canadian dollars)</i>	Notes	March 31 2017	December 31 2016
ASSETS			
Current assets			
Cash and cash equivalents		4	4
Restricted cash		552,117	756,167
Current portion of long-term investments	5	-	28,951
Trade and other receivables		42,371	35,229
Current portion of advances	6	10,290	14,404
Prepayments		2,184	2,184
Total current assets		606,966	836,939
Non-current assets			
Property, plant and equipment	3	2,998,991	2,756,725
Intangible assets	4	32,572	30,182
Long-term prepayments		702	1,248
Total assets		3,639,231	3,625,094
LIABILITIES AND DEFICIENCY			
Current liabilities			
Trade and other payables		531,877	576,120
Non-current liabilities			
Long-term debt	7	2,400,562	2,400,569
Deferred revenue		16,100	16,100
Class A limited partnership units	8	258,869	237,092
Class B limited partnership units	8	435,743	399,086
Contributions		10	10
Total liabilities		3,643,161	3,628,977
Partners' deficit			
Deficit		(3,930)	(3,883)
Total deficiency		(3,930)	(3,883)
Total liabilities and deficiency		3,639,231	3,625,094

Commitments and contingencies (Note 13)

See accompanying notes

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

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Notes	Three months ended	
		2017	2016
Other income	10	165	446
Operating costs		212	96
Total (loss) profit and comprehensive (loss) income for the period		(47)	350

See accompanying notes

LABRADOR - ISLAND LINK LIMITED PARTNERSHIP
CONSOLIDATED STATEMENT OF CHANGES IN DEFICIT
(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, 2017	(1,899)	(1,984)	(3,883)
Total comprehensive loss for the period	(18)	(29)	(47)
Balance at March 31, 2017	(1,917)	(2,013)	(3,930)
Balance at January 1, 2016	(1,791)	(1,803)	(3,594)
Total comprehensive income for the period	143	207	350
Balance at March 31, 2016	(1,648)	(1,596)	(3,244)

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

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Notes	Three months ended	
		2017	2016
Operating activities			
(Loss) profit for the period		(47)	350
Adjusted for items not involving a cash flow:			
Amortization of long-term prepayments		546	546
Accretion of long-term debt		(7)	(6)
Changes in non-cash working capital balances	14	6	(28)
Net cash provided from operating activities		498	862
Investing activities			
Additions to property, plant and equipment	3	(228,997)	(178,274)
Additions to intangible assets	4	(2,491)	(89)
Decrease in advances	6	4,114	649
Decrease in investments	5	28,951	172,837
Changes in non-cash working capital balances	14	(51,391)	(5,687)
Net cash used in investing activities		(249,814)	(10,564)
Financing activities			
Decrease (increase) in restricted cash		204,050	(29,423)
Increase in Class A limited partnership units	8	16,870	799
Increase in Class B limited partnership units	8	28,396	38,311
Net cash provided from financing activities		249,316	9,687
Net decrease in cash and cash equivalents		-	(15)
Cash and cash equivalents, beginning of period		4	20
Cash and cash equivalents, end of period		4	5
Interest received		1,574	3,859
Interest paid		3	3

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 (TFA) 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, 2016.

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 General Partner has delegated the authority to approve the condensed consolidated interim financial statements to the Audit Committee of the Board of Directors of Nalcor, which approved the statements on May 9, 2017.

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, 2016	1,593,941
Additions	1,162,784
Balance at December 31, 2016	2,756,725
Additions	242,266
Balance at March 31, 2017	2,998,991
Carrying value	
Balance at January 1, 2016	1,593,941
Balance at December 31, 2016	2,756,725
Balance at March 31, 2017	2,998,991

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 March 31, 2017, \$21.5 million (December 31, 2016 - \$79.8 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 \$13.2 million (December 31, 2016 - \$38.9 million) as non-cash additions to property, plant and equipment.

4. INTANGIBLE ASSETS

<i>(thousands of Canadian dollars)</i>	Computer Software	Assets Under Development	Total
Cost			
Balance at January 1, 2016	1,377	14,658	16,035
Additions	403	15,303	15,706
Balance at December 31, 2016	1,780	29,961	31,741
Additions	114	2,377	2,491
Balance at March 31, 2017	1,894	32,338	34,232
Amortization			
Balance at January 1, 2016	1,236	-	1,236
Amortization	323	-	323
Balance at December 31, 2016	1,559	-	1,559
Amortization	101	-	101
Balance at March 31, 2017	1,660	-	1,660
Carrying value			
Balance at January 1, 2016	141	14,658	14,799
Balance at December 31, 2016	221	29,961	30,182
Balance at March 31, 2017	234	32,338	32,572

Intangible assets consist of computer software costs and assets under development which represent LIL LP's right to collect the costs incurred related to these assets through the LIL Lease Agreement and TFA with LIL Opco and Hydro.

Computer software is amortized on a straight-line basis over their finite useful lives of one year. Amortization of assets under development will commence once LIL LP begins recovering its costs for these assets over the term of the TFA.

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). As of March 31, 2017 all investments had matured.

<i>As at (thousands of Canadian dollars)</i>	Year of Maturity	March 31 2017	December 31 2016
\$75.0 million Floating Rate Deposit Note, with interest paid at the one-month Canadian Dollar Offer Rate (CDOR) plus 0.38%.	2017	-	28,951
Long-term investments, end of period		-	28,951
Less: redemptions to be received within one year		-	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>	March 31 2017	December 31 2016
Total advances	10,290	14,404
Less: current portion	10,290	14,404
Total long-term advances	-	-

7. LONG-TERM DEBT

The following table represents the value of long-term debt measured at amortized cost:

<i>(thousands of Canadian dollars)</i>	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	March 31 2017	December 31 2016
Tranche A	725,000	3.76	2013	2033	725,253	725,257
Tranche B	600,000	3.86	2013	2045	600,102	600,103
Tranche C	1,075,000	3.85	2013	2053	1,075,207	1,075,209
Total debentures	2,400,000				2,400,562	2,400,569

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.

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

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

		March 31		December 31
<i>As at (thousands of Canadian dollars)</i>	Units	2017	Units	2016
Class A limited partnership units, beginning of period	75	237,092	75	168,950
Contributions	-	16,870	-	52,840
Accrued interest	-	4,907	-	15,302
Class A limited partnership units, end of period	75	258,869	75	237,092

8.3 Class B Limited Partnership Units

		March 31		December 31
<i>As at (thousands of Canadian dollars)</i>	Units	2017	Units	2016
Class B limited partnership units, beginning of period	25	399,086	25	207,396
Contributions	-	28,396	-	168,132
Accrued interest	-	8,261	-	23,558
Class B limited partnership units, end of period	25	435,743	25	399,086

9. NET FINANCE (INCOME) EXPENSE

	Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	2017	2016
Finance income		
Interest on investments	48	2,257
Other interest income	1,411	1,635
	1,459	3,892
Finance expense		
Interest on long-term debt	22,952	22,952
Interest on limited partnership units	13,168	8,337
Bank charges	3	3
	36,123	31,292
Interest capitalized during construction	(34,664)	(27,400)
	1,459	3,892
Net finance (income) expense	-	-

10. OTHER INCOME

	Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	2017	2016
Realized foreign exchange gain	(268)	(191)
Unrealized foreign exchange loss (gain)	103	(255)
Other income	(165)	(446)

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

11. FINANCIAL INSTRUMENTS

Fair Value

The estimated fair values of financial instruments as at March 31, 2017 and December 31, 2016 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 disclosed 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 disclosed 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 March 31, 2017 and December 31, 2016.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		March 31, 2017		December 31, 2016	
<i>As at (thousands of Canadian dollars)</i>					
Financial assets					
Investments	2	-	-	28,951	28,949
Financial liabilities					
Long-term debt	2	2,400,562	2,739,075	2,400,569	2,715,343
Class A limited partnership units	3	258,869	258,869	237,092	237,092
Class B limited partnership units	3	435,743	435,743	399,086	399,086

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.

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 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.

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The Class A and Class B limited partnership units are carried at amortized cost, calculated using the effective interest method, which approximates fair value. The effective interest rate is defined in the Newfoundland and Labrador Development Agreement as Emera NL's rate of return on equity (RROE), and is equal to the rate approved by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) for privately-owned regulated electrical utilities. Due to the unobservable nature of the effective interest rate and resulting discounted cash flows associated with the units, the instruments have been classified as Level 3.

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	(7,466)	7,253
Class B limited partnership units	(6,667)	6,555
Total	(14,133)	13,808

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
Muskrat Falls Corporation (Muskrat 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.

- (a) As at March 31, 2017, LIL LP has related party payables totaling \$8.5 million (December 31, 2016 - \$6.9 million) with Muskrat Falls, Nalcor, and Labrador Transco and related party receivables totaling \$0.4 million (December 31, 2016 - \$nil) with LCMC. These payables and receivables consist of various intercompany operating and construction costs.
- (b) For the period ended March 31, 2017, LIL LP had incurred costs of \$2.4 million (March 31, 2016 - \$2.6 million) related to assets under development which LIL LP controls the right to collect costs through the LIL Lease Agreement and TFA with LIL Opco and Hydro.

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.

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

- (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 \$444.0 million as at March 31, 2017 (December 31, 2016 - \$598.8 million).

14. SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	2017	2016
Trade and other receivables	(7,142)	3,884
Trade and other payables	(44,243)	(9,599)
Changes in non-cash working capital balances	(51,385)	(5,715)
Related to:		
Operating activities	6	(28)
Investing activities	(51,391)	(5,687)
	(51,385)	(5,715)