

**LABRADOR - ISLAND LINK OPERATING CORPORATION**  
**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**September 30, 2017**  
**(Unaudited)**

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

	<b>September 30</b>	December 31
<i>As at (thousands of Canadian dollars)</i>	<b>2017</b>	2016
<b>ASSETS</b>		
Current assets		
Restricted cash	<b>994</b>	-
Short-term investments	<b>10</b>	-
Other receivables	<b>1</b>	990
<b>Total current assets</b>	<b>1,005</b>	990
Non-current assets		
Prepaid rent	<b>16,100</b>	16,100
Long-term investments	-	10
<b>Total assets</b>	<b>17,105</b>	17,100
<b>LIABILITIES AND EQUITY</b>		
Non-current liabilities		
Long-term payables	<b>116</b>	79
<b>Total liabilities</b>	<b>116</b>	79
Shareholder's equity		
Share capital	<b>1</b>	1
Shareholder contributions	<b>17,081</b>	17,081
Deficit	<b>(93)</b>	(61)
<b>Total equity</b>	<b>16,989</b>	17,021
<b>Total liabilities and equity</b>	<b>17,105</b>	17,100

Commitments and contingencies (Note 5)

*See accompanying notes*

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

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>2017</b>	2016	<b>2017</b>	2016
Finance income	<b>2</b>	1	<b>5</b>	1
Operating costs	<b>13</b>	12	<b>37</b>	32
Total loss and comprehensive loss for the period	<b>(11)</b>	(11)	<b>(32)</b>	(31)

**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, 2017</b>	<b>1</b>	<b>17,081</b>	<b>(61)</b>	<b>17,021</b>
<b>Total comprehensive loss for the period</b>	<b>-</b>	<b>-</b>	<b>(32)</b>	<b>(32)</b>
<b>Balance at September 30, 2017</b>	<b>1</b>	<b>17,081</b>	<b>(93)</b>	<b>16,989</b>
Balance at January 1, 2016	1	9,688	(86)	9,603
Total comprehensive loss for the period	-	-	(31)	(31)
Balance at September 30, 2016	1	9,688	(117)	9,572

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

	<b>Three months ended</b>		<b>Nine months ended</b>	
<i>For the period ended September 30 (thousands of Canadian dollars)</i>	<b>2017</b>	2016	<b>2017</b>	2016
Operating activities				
Loss for the period	<b>(11)</b>	(11)	<b>(32)</b>	(31)
Adjustments for the following non-cash items:				
Change in long-term payables	<b>13</b>	11	<b>37</b>	32
Changes in non-cash working capital balances				
Change in other receivables	-	-	<b>989</b>	196
Net cash provided from operating activities	<b>2</b>	0	<b>994</b>	197
Financing activity				
Increase in restricted cash	<b>(2)</b>	0	<b>(994)</b>	(197)
Net cash used in financing activity	<b>(2)</b>	0	<b>(994)</b>	(197)
Net increase (decrease) in cash	-	-	-	-
Cash, beginning of period	-	-	-	-
Cash, end of period	-	-	-	-
Interest received	<b>3</b>	-	<b>5</b>	-

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

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**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 Standard 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, 2016.

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 Board of Directors of LIL Opco has delegated the authority to approve the condensed interim financial statements to the Audit Committee of the Board of Directors of Nalcor, which approved the statements on November 7, 2017.

**3. FINANCIAL INSTRUMENTS**

**Fair Value**

The estimated fair values of financial instruments as at September 30, 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 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 disclosed 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**  
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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 September 30, 2017 and December 31, 2016.

As at September 30, 2017 and December 31, 2016, 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 long-term payables approximates its carrying value due to the underlying nature of the balances with its related 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 between Labrador-Island Link Holding Corporation and Emera Newfoundland and Labrador Island Link Inc.
LIL Construction Project Trust	Party to the LIL Project Finance Agreement (LIL PFA) and the IT Project Finance Agreement

Outstanding balances due to or from related parties are non-interest bearing with no set terms of repayment, unless otherwise stated.

- (a) At September 30, 2017, LIL Opco has related party payables totaling \$0.1 million (December 31, 2016 - \$0.1 million) with LCMC and Nalcor. These payables consist of various intercompany administrative expenses.

**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.
- (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.

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- (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.