LABRADOR - ISLAND LINK GENERAL PARTNER CORPORATION
FINANCIAL STATEMENTS
December 31, 2015

Deloitte.

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Independent Auditor's Report

To the Shareholder of Labrador-Island Link General Partner Corporation

We have audited the accompanying financial statements of Labrador-Island Link General Partner Corporation which comprise the statement of financial position as at December 31, 2015 and the statements of comprehensive loss, changes in shareholder deficit and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Labrador-Island Link General Partner Corporation as at December 31, 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants
March 11, 2016

LABRADOR - ISLAND LINK GENERAL PARTNER CORPORATION
STATEMENT OF FINANCIAL POSITION

As at December 31 (thousands of Canadian dollars)	Notes	**2015**	2014
ASSETS			
Current assets			
Cash and cash equivalents		**1**	-
Other receivables		**-**	1
Total assets		**1**	1
LIABILITIES AND DEFICIENCY			
Non-current liabilities			
Trade and other payables	5	**158**	105
Total liabilities		**158**	105
Shareholder's deficiency			
Share capital	6	**1**	1
Deficit		**(158)**	(105)
Total deficiency		**(157)**	(104)
Total liabilities and deficiency		**1**	1

Commitments and contingencies (Note 9)

See accompanying notes

On behalf of the Board:

DIRECTOR

DIRECTOR

LABRADOR - ISLAND LINK GENERAL PARTNER CORPORATION
STATEMENT OF LOSS AND COMPREHENSIVE LOSS

For the year ended December 31 (thousands of Canadian dollars)	**2015**	2014
Revenue		
Other revenue	**1**	-
Expenses		
Operating costs	**53**	35
Net finance (income) expense	**1**	-
Total comprehensive loss for the year	**(53)**	(35)

LABRADOR - ISLAND LINK GENERAL PARTNER CORPORATION
STATEMENT OF CHANGES IN DEFICIT

(thousands of Canadian dollars)	Share Capital	Deficit	Total
Balance at January 1, 2015	**1**	**(105)**	**(104)**
Total comprehensive loss for the year	**-**	**(53)**	**(53)**
Balance at December 31, 2015	**1**	**(158)**	**(157)**
Balance at January 1, 2014	1	(70)	(69)
Total comprehensive loss for the year	-	(35)	(35)
Balance at December 31, 2014	1	(105)	(104)

LABRADOR - ISLAND LINK GENERAL PARTNER CORPORATION
STATEMENT OF CASH FLOWS

For the year ended December 31 (thousands of Canadian dollars)	Notes	**2015**	2014
Cash provided from (used in)			
Operating activities			
Loss for the year		**(53)**	(35)
Changes in non-cash working capital balances	11	**54**	35
Net cash provided from operating activities		**1**	-
Net increase in cash and cash equivalents		**1**	-
Cash and cash equivalents, beginning of year		**-**	-
Cash and cash equivalents, end of year		**1**	-

Supplementary cash flow information (Note 11)

See accompanying notes

1. DESCRIPTION OF BUSINESS

Labrador-Island Link General Partner Corporation (LIL GP or the Company) was incorporated under the laws of Newfoundland and Labrador on July 26, 2012, and is the general partner of the Labrador-Island Link Limited Partnership (LIL LP). The head office of LIL GP is located in St. John's, Newfoundland and Labrador.

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

LIL LP 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 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 LIL LP.

The Company owns the only issued general partner unit of the LIL LP, thereby constituting it the LIL LP general partner. As the general partner, in accordance with the Limited Partnership Agreement relating to the LIL LP and applicable law, the LIL GP has the power to control and manage LIL LP. Labrador-Island Link Holding Corporation (LIL Holdco), a wholly-owned subsidiary of Nalcor, and Emera Newfoundland and Labrador Holdings Inc. (Emera NL) are the limited partners of LIL LP.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance and Basis of Measurement

These annual audited financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). LIL GP has adopted accounting policies which are based on the IFRS applicable as at December 31, 2015, and includes individual IFRS, International Accounting Standards (IAS), and interpretations made by the IFRS Interpretations Committee and the Standing Interpretations Committee.

These annual audited financial statements have been prepared on a historical cost basis. The annual audited financial statements are presented in Canadian Dollars and all values rounded to the nearest thousands, except when otherwise noted. These annual audited financial statements were approved by LIL GP's Board of Directors on March 3, 2016.

2.2 Cash and Cash Equivalents

Cash and cash equivalents consist of amounts on deposit with a Schedule 1 Canadian Chartered bank. Cash and cash equivalents are measured at cost which approximates fair value.

2.3 Other Receivables

Other receivables are classified as loans and receivables and are measured at amortized cost using the effective interest method.

2.4 Provisions

A provision is a liability of uncertain timing or amount. A provision is recognized if the Company has a present legal obligation or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. The provision is measured at the present value of the best estimate of the expenditures expected to be required to settle the obligation using a discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. Provisions are re-measured at each Statement of Financial Position date using the current discount rate.

2.5 Revenue Recognition

Revenue is recognized on an accrual basis as earned, when recovery is probable and the amount of revenue can be reliably measured.

2.6 Net Finance (Income) Expense

For all financial instruments measured at amortized cost and interest bearing financial assets classified as available-for-sale (AFS), interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

2.7 Foreign Currencies

Transactions in currencies other than LIL GP's functional currency (foreign currencies) are recognized using the exchange rate in effect at the date of transaction approximated by the prior month end close rate. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates of exchange in effect at the period end date. Foreign exchange gains and losses are included in the Statement of Loss and Comprehensive Loss as other (income) expense.

2.8 Income Taxes

The Company is exempt from paying income taxes under Section 149(1) (d.2) of the Income Tax Act.

2.9 Financial Instruments

Financial assets and financial liabilities are recognized in the Statement of Financial Position when the Company becomes a party to the contractual provisions of the instrument and are initially measured at fair value. Subsequent measurement is based on classification. Financial instruments are classified into the following specified categories: financial assets at fair value through profit or loss (FVTPL), AFS financial assets, loans and receivables, held-to-maturity investments, financial liabilities at FVTPL, financial instruments used for hedging and other financial liabilities. The classification depends on the nature and purpose of the financial instruments and is determined at the time of initial recognition.

<u>Classification of Financial Instruments</u>

The Company has classified each of its financial instruments into the following categories: loans and receivables and other financial liabilities.

Cash and cash equivalents	Loans and receivables
Other receivables	Loans and receivables
Trade and other payables	Other financial liabilities

(i) <u>Effective Interest Method</u>

The effective interest method is a method of calculating the amortized cost of a financial instrument and allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income or expense is recognized on an effective interest basis for financial instruments other than those financial assets and liabilities classified as at FVTPL.

Financial Assets

(ii) Loans and Receivables
Trade receivables, loans and other receivables with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Financial Liabilities and Equity Instruments

(iii) Other Financial Liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

2.10 Derecognition of Financial Instruments

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, its retained interest in the asset and any associated liability for amounts it may have to pay is recognized. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, it continues to recognize the financial asset and also recognizes the collateralized borrowing for the proceeds received. The Company derecognizes financial liabilities when, and only when, its obligations are discharged, cancelled or they expire.

2.11 Impairment of Financial Assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- the borrower, more probable than not, entering bankruptcy or financial re-organization.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the annual audited financial statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may materially differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is reviewed if the revision affects only that period or future periods.

3.1 Use of Judgment

Management applies its judgment when determining whether to consolidate structured entities in accordance with the criteria outlined in IFRS 10. Management has determined that the Company should not consolidate LIL LP.

4. FUTURE CHANGES IN ACCOUNTING POLICIES

LIL GP has not applied the following new and revised IFRS that have been issued but are not yet effective:

Amendments to IAS 1	Disclosure Initiative[1]
IFRS 9	Financial Instruments[2]
IFRS 15	Revenue from Contracts with Customers[2]

[1]Effective for annual periods beginning on or after January 1, 2016, with earlier application permitted.
[2]Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

4.1 Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 give some guidance on how to apply the concept of materiality in practice. Management does not anticipate that the application of these amendments to IAS 1 will have a material impact on LIL GP's annual audited financial statements.

4.2 IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include:

(a) impairment requirements for financial assets; and
(b) limited amendments to the classification and measurement requirements by introducing a fair value through other comprehensive income (FVTOCI) measurement category for certain simple debt instruments.

Key Requirements of IFRS 9:

- All recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortized cost or fair value. Specifically, debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt instruments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- With regard to the measurement of financial liabilities designated as at FVTPL, IFRS 9 requires that the amount of change in the fair value of the financial liability attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Management anticipates that the application of IFRS 9 in the future may have a material impact on the amounts reported and disclosures made in the Company's annual audited financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until Management performs a detailed review.

4.3 IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a five-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Management anticipates that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Company's annual audited financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until Management performs a detailed review.

5. TRADE AND OTHER PAYABLES

As at December 31 (thousands of Canadian dollars)	**2015**	2014
Accrued trade payables	**77**	57
Payables due to related parties	**81**	48
	158	105

6. SHARE CAPITAL

As at December 31 (thousands of Canadian dollars)	**2015**	2014
Common shares without nominal or par value		
Authorized - unlimited		
Issued - fully paid and outstanding - 100	**1**	1

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

7.1 Fair Value

The estimated fair values of financial instruments as at December 31, 2015 and 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 GP might receive or incur in actual market transactions.

As a significant number of LIL GP'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 GP 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 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 years ended December 31, 2015 and 2014.

As at December 31, 2015, the Company did not have any level 2 or level 3 financial instruments. The fair values of cash and cash equivalents and other receivables approximate their carrying values due to their short-term maturity.

The fair value of trade and other payables approximate their carrying values due to the underlying nature of the balances with its intercompany counterparties.

7.2 Risk Management

The Company is exposed to certain credit, liquidity and market price risks through its operating, financing and investing activities. Financial risk is managed in accordance with a Board-approved policy, which outlines the objectives and strategies for the management of financial risk, including the use of derivative contracts. Permitted financial risk management strategies are aimed at minimizing the volatility of the Company's expected future cash flows.

Credit Risk

The Company's expected future cash flows are exposed to credit risk through financing activities, based on the risk of non-performance by counterparties to its financial instruments. Credit risk on cash and cash equivalents is minimal, as the Company's deposits are held by a Canadian Schedule 1 Chartered Bank with a rating of A+ (Standard and Poor's). During the year ended December 31, 2015, the Company did not hold any financial assets with counterparties other than related parties.

Liquidity Risk

The Company is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. Short-term liquidity is provided through equity contributions. The construction of the LIL by LIL LP is funded entirely by financing obtained by LIL LP and contributions from the limited partners.

The following are the contractual maturities of the Company's financial liabilities, including principal and interest, as at December 31, 2015:

(thousands of Canadian dollars)	< 1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	-	158	-	-	158

Market Risk

The Company is exposed to possible market price movements that could impact expected future cash flow and the carrying value of certain financial assets and liabilities.

Interest Rates

Changes in prevailing interest rates will impact the fair value of financial assets and liabilities. Expected future cash flows from these assets and liabilities are also impacted in certain circumstances.

Foreign Currency and Commodity Exposure

The Company does not hold any financial instruments whose value would vary due to changes in a commodity price or fluctuations in foreign currency exchange rates.

8. RELATED PARTY TRANSACTIONS

LIL GP 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 GP transacts are as follows:

Related Party	Relationship
Nalcor	100% shareholder of LIL GP
LIL LP	Limited partnership between Nalcor and Emera NL
Lower Churchill Management Corporation	100% owned subsidiary of Nalcor
LIL Holdco	100% owned subsidiary of Nalcor and limited partner of LIL LP
Emera NL	Limited partner of LIL LP
Hydro	100% owned subsidiary of Nalcor

(a) LIL GP has related party payables which consist of various intercompany operating costs.

9. COMMITMENTS AND CONTINGENCIES

(a) Under the terms of the Newfoundland and Labrador Development Agreement (NLDA), the Company has certain responsibilities and provisions of duty with which it must comply in its role as the general partner. Any failure of LIL GP to comply with the NLDA will result in Nalcor indemnifying Emera NL for any losses sustained.

(b) LIL GP is subject to various legal proceedings and claims in the normal course of business. Although the outcome of such actions cannot be predicted with certainty, Management currently believes LIL GP'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.

10. CAPITAL MANAGEMENT

Long-term capital includes share capital, shareholder contributions and retained earnings. LIL GP's objectives when managing capital are to maintain its ability to continue as a going concern and ensure payment of its obligations.

11. SUPPLEMENTARY CASH FLOW INFORMATION

For the year ended December 31 (thousands of Canadian dollars)	**2015**	2014
Trade and other receivables	**1**	-
Trade and other payables	**53**	35
Changes in non-cash working capital balances	**54**	35
Interest paid	**1**	-