

**LABRADOR - ISLAND LINK GENERAL PARTNER CORPORATION**  
**FINANCIAL STATEMENTS**  
**December 31, 2019**

## Independent Auditor's Report

To the Shareholder of Labrador-Island Link General Partner Corporation

### Opinion

We have audited the financial statements of Labrador – Island Link General Partner Corporation (the "Partnership"), which comprise the statement of financial position as at December 31, 2019, and the statements of loss and comprehensive loss, changes in deficiency and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Partnership in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Partnership's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Partnership or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Partnership's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Partnership's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Partnership's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Partnership to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*Deloitte LLP*

Chartered Professional Accountants  
February 28, 2020

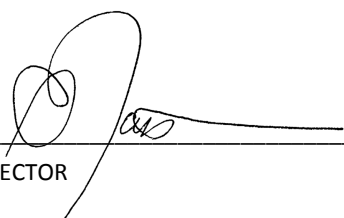
**LABRADOR - ISLAND LINK GENERAL PARTNER CORPORATION**  
**STATEMENT OF FINANCIAL POSITION**

<i>As at December 31 (thousands of Canadian dollars)</i>	Notes	2019	2018
<b>LIABILITIES AND DEFICIENCY</b>			
Current liabilities			
Other payables	5	8	9
Total liabilities		8	9
Shareholder's deficiency			
Share capital	6	1	1
Shareholder contributions		237	203
Deficit		(246)	(213)
Total deficiency		(8)	(9)
Total liabilities and deficiency		-	-

Commitments and contingencies (Note 10)

*See accompanying notes*

On behalf of the Board:

  
\_\_\_\_\_  
DIRECTOR

  
\_\_\_\_\_  
DIRECTOR

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

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	Notes	<b>2019</b>	2018
Expenses			
Operating costs	7	<b>33</b>	37
Total loss and comprehensive loss for the year		<b>(33)</b>	(37)

*See accompanying notes*

**LABRADOR - ISLAND LINK GENERAL PARTNER CORPORATION**  
**STATEMENT OF CHANGES IN DEFICIENCY**

<i>(thousands of Canadian dollars)</i>	Notes	Share Capital	Shareholder Contributions	Deficit	Total
<b>Balance at January 1, 2019</b>		<b>1</b>	<b>203</b>	<b>(213)</b>	<b>(9)</b>
<b>Total loss and comprehensive loss for the year</b>		-	-	<b>(33)</b>	<b>(33)</b>
<b>Shareholder contributions</b>	<b>9</b>	-	<b>34</b>	-	<b>34</b>
<b>Balance at December 31, 2019</b>		<b>1</b>	<b>237</b>	<b>(246)</b>	<b>(8)</b>
Balance at January 1, 2018		1	169	(176)	(6)
Total loss and comprehensive loss for the year		-	-	(37)	(37)
Shareholder contributions	9	-	34	-	34
Balance at December 31, 2018		1	203	(213)	(9)

*See accompanying notes*

**LABRADOR - ISLAND LINK GENERAL PARTNER CORPORATION**  
**STATEMENT OF CASH FLOWS**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	Notes	<b>2019</b>	2018
Operating activities			
Loss for the year		<b>(33)</b>	(37)
Changes in non-cash working capital balances	12	<b>(1)</b>	3
Net cash used in operating activities		<b>(34)</b>	(34)
Financing activity			
Increase in shareholder contributions	9	<b>34</b>	34
Net cash provided from financing activity		<b>34</b>	34
Net increase (decrease) in cash		-	-
Cash, beginning of the year		-	-
Cash, end of the year		-	-

*See accompanying notes*

# LABRADOR - ISLAND LINK GENERAL PARTNER CORPORATION

## NOTES TO FINANCIAL STATEMENTS

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### 1. DESCRIPTION OF BUSINESS

Labrador-Island Link General Partner Corporation (LIL GP or the Company) was incorporated on July 26, 2012 under the laws of Newfoundland and Labrador. LIL GP is a 100% owned subsidiary of Nalcor Energy (Nalcor) and is the general partner of the Labrador-Island Link Limited Partnership (LIL LP). LIL GP's head office is located at 500 Columbus Drive, St. John's, Newfoundland and Labrador, A1B 0M1, Canada.

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 the services 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 Island Link 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 IFRS applicable as at December 31, 2019, 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 and are presented in Canadian Dollars (CAD) with all values rounded to the nearest thousand, except when otherwise noted. The annual audited financial statements were approved by LIL GP's Board of Directors on February 26, 2020.

#### 2.2 Cash

Cash consists of amounts on deposit with a Schedule 1 Canadian Chartered bank.

#### 2.3 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.

#### 2.4 Income Taxes

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

#### 2.5 Financial Instruments

##### Classification and Initial Measurement

Financial assets and financial liabilities are recognized in the Statement of Financial Position when LIL GP becomes a party to the contractual provisions of the instrument and are initially measured at fair value.



**LABRADOR - ISLAND LINK GENERAL PARTNER CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**

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Financial assets are classified at amortized cost, fair value through other comprehensive income, fair value through profit or loss (FVTPL) or as derivatives designated as hedging instruments in an effective hedge. Financial liabilities are classified as FVTPL, amortized cost or as derivatives designated as hedging instruments in an effective hedge. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial Liabilities at Amortized Cost

LIL GP subsequently measures all financial liabilities at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the liability is derecognized.

LIL GP's financial liabilities at amortized cost include other payables.

Derecognition of Financial Instruments

LIL GP derecognizes financial liabilities when, and only when, its obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

**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.

**Use of Judgment**

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

**4. CURRENT AND FUTURE CHANGES IN ACCOUNTING POLICIES**

The following amendments have been issued and are effective for accounting periods commencing on January 1, 2020:

**IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (Amendments to IAS 1 and IAS 8)**

The IASB issued amendments to IAS 1 and IAS 8 to align the definition of 'material' across the standards and to clarify certain aspects of the definition and to include the concept of 'obscuring information'. The amendments are intended to improve the understanding of the existing requirements rather than to significantly impact LIL GP's materiality judgments.

**5. OTHER PAYABLES**

Other payables as at December 31, 2019 consist of accrued liabilities of \$8 thousand (2018 - \$9 thousand).

**LABRADOR - ISLAND LINK GENERAL PARTNER CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**

**6. SHAREHOLDER'S DEFICIENCY**

**Share Capital**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2019</b>	<b>2018</b>
Common shares without nominal or par value		
Authorized - unlimited		
Issued - fully paid and outstanding - 100	<b>1</b>	<b>1</b>

**7. OPERATING COSTS**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2019</b>	<b>2018</b>
Professional services	<b>14</b>	<b>13</b>
Cost recoveries	<b>12</b>	<b>13</b>
Salaries and benefits	<b>7</b>	<b>11</b>
	<b>33</b>	<b>37</b>

**8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

**8.1 Fair Value**

The estimated fair values of financial instruments as at December 31, 2019 and December 31, 2018 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 GP 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 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, 2019 and December 31, 2018.

As at December 31, 2019 and December 31, 2018, the Company did not have any Level 2 or Level 3 instruments. The fair value of other payables approximates its carrying value due to its short-term maturity.

**LABRADOR - ISLAND LINK GENERAL PARTNER CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**

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**8.2 Risk Management**

The Company is exposed to certain credit, liquidity and market price risks through its operating and financing activities. Financial risk is managed in accordance with a Board-approved policy, which outlines the objectives and strategies for the management of financial risk. 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, 2019, the Company did not hold any financial assets.

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.

Market Risk

LIL GP has no marketable financial instruments and therefore is not exposed to market risk.

**9. 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:

<u>Related Party</u>	<u>Relationship</u>
Nalcor	100% shareholder of LIL GP
Hydro	Wholly-owned subsidiary of Nalcor
Lower Churchill Management Corporation	Wholly-owned subsidiary of Nalcor
LIL LP	Limited partnership between LIL Holdco and Emera NL

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

For the year ended December 31, 2019, LIL GP received contributions from Nalcor totaling \$34 thousand (2018 - \$34 thousand) to settle its liabilities.

**10. 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 will not materially affect its financial position.

**LABRADOR - ISLAND LINK GENERAL PARTNER CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**

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**11. CAPITAL MANAGEMENT**

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

**12. SUPPLEMENTARY CASH FLOW INFORMATION**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2019</b>	<b>2018</b>
Other receivables	-	1
Other payables	<b>(1)</b>	2
Changes in non-cash working capital balances	<b>(1)</b>	3