

LABRADOR - ISLAND LINK HOLDING CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

Independent Auditor's Report

To the Shareholder of Labrador-Island Link Holding Corporation

Opinion

We have audited the consolidated financial statements of Labrador – Island Link Holding Corporation Consolidated Financial Statements (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of profit and comprehensive income, changes in equity 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 Company 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 Company 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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 Company'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 Company'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 Company 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 HOLDING CORPORATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>As at December 31 (thousands of Canadian dollars)</i>	Notes	2019	2018
ASSETS			
Current assets			
Cash		4	4
Restricted cash		529,389	531,305
Investments	5	-	105,523
Trade and other receivables	6	6,088	7,303
Advances	7	552	820
Prepayments		1,924	2,621
Total current assets		537,957	647,576
Non-current assets			
Property, plant and equipment	8	4,341,746	4,080,158
Intangible assets	9	35,221	34,476
Long-term prepayments		-	1,783
Right-of-use assets	10	2,650	-
Total assets		4,917,574	4,763,993
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	11	47,356	76,045
Current portion of long-term debt	13	10,500	-
Current portion of lease liabilities	12	107	-
Total current liabilities		57,963	76,045
Non-current liabilities			
Long-term debt	13	3,441,253	3,451,828
Deferred revenue	14	52,300	36,500
Class B limited partnership units	15	578,368	533,058
Lease liabilities	12	2,595	-
Contributions		10	10
Total liabilities		4,132,489	4,097,441
Shareholder's equity			
Share capital	16	1	1
Shareholder contributions		779,979	665,245
Retained earnings		5,105	1,306
Total equity		785,085	666,552
Total liabilities and equity		4,917,574	4,763,993

Commitments and contingencies (Note 23)

Subsequent event (Note 26)

See accompanying notes

On behalf of the Board:



 DIRECTOR



 DIRECTOR

LABRADOR - ISLAND LINK HOLDING CORPORATION
CONSOLIDATED STATEMENT OF PROFIT AND COMPREHENSIVE INCOME

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	Notes	2019	2018
Net finance income	17	6,241	3,969
Operating costs	18	2,463	1,373
Other (income) expense	19	(31)	56
Expenses		2,432	1,429
Profit for the year		3,809	2,540
Distribution of income	20	(10)	(10)
Total profit and comprehensive income for the year		3,799	2,530

See accompanying notes

LABRADOR - ISLAND LINK HOLDING CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>(thousands of Canadian dollars)</i>	Notes	Share Capital	Shareholder Contributions	Retained Earnings	Total
Balance at January 1, 2019		1	665,245	1,306	666,552
Total comprehensive income for the year		-	-	3,799	3,799
Shareholder contributions	22	-	114,734	-	114,734
Balance at December 31, 2019		1	779,979	5,105	785,085
Balance at January 1, 2018		1	588,022	(1,224)	586,799
Total comprehensive income for the year		-	-	2,530	2,530
Shareholder contributions	22	-	77,223	-	77,223
Balance at December 31, 2018		1	665,245	1,306	666,552

See accompanying notes

LABRADOR - ISLAND LINK HOLDING CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	Notes	2019	2018
Operating activities			
Profit for the year		3,809	2,540
Adjustments to reconcile profit to cash used in operating activities:			
Amortization of prepayments		2,847	1,574
Finance income	17	(11,341)	(12,966)
Finance expense	17	5,100	8,997
		415	145
Increase in prepayments		(367)	(5,654)
Changes in non-cash working capital balances	25	(57)	-
Interest received		11,285	12,531
Interest paid		(124,330)	(124,326)
Net cash used in operating activities		(113,054)	(117,304)
Investing activities			
Additions to property, plant and equipment		(96,693)	(187,704)
Additions to intangible assets	9	(843)	(1,823)
Change in advances		268	619
Redemption of investments		105,523	332,811
Changes in non-cash working capital balances	25	(27,436)	(3,777)
Net cash (used in) provided from investing activities		(19,181)	140,126
Financing activities			
Change in restricted cash		1,916	(111,635)
Change in deferred revenue	22	15,800	11,600
Increase in shareholder contributions	22	114,734	77,223
Distribution of income		(10)	(10)
Repayment of lease liabilities		(205)	-
Net cash provided from (used in) financing activities		132,235	(22,822)
Net increase (decrease) in cash		-	-
Cash, beginning of the year		4	4
Cash, end of the year		4	4

See accompanying notes

LABRADOR - ISLAND LINK HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

Labrador-Island Link Holding Corporation (LIL Holdco or the Company) was incorporated on July 31, 2012 under the laws of the Province of Newfoundland and Labrador. LIL Holdco is a 100% owned subsidiary of Nalcor Energy (Nalcor) and is a limited partner in the Labrador-Island Link Limited Partnership (the Partnership or LIL LP). LIL Holdco's head office is located at 500 Columbus Drive, St. John's, Newfoundland and Labrador, A1B 0C9, Canada.

LIL Holdco, together with the Labrador-Island Link General Partner Corporation (LIL GP or the General Partner, represent Nalcor's interests in the Partnership. Emera Newfoundland and Labrador Island Link Inc. (Emera NL) is the remaining limited partner of the Partnership, and when combined with Nalcor's interests, represents 100% of the Partnership. 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 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). The Partnership has entered into the LIL Lease 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 Hydro with transmission services over the LIL. 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 annual audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). LIL Holdco 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 consolidated 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 consolidated financial statements were approved by LIL Holdco's Board of Directors on February 26, 2020.

2.2 Basis of Consolidation

These annual audited consolidated financial statements include the financial statements of LIL Holdco, the Partnership and the LIL Construction Project Trust (Project Trust or the IT). Intercompany transactions and balances have been eliminated upon consolidation.

The IT was formed for the purpose of borrowing funds from the Labrador-Island Link Funding Trust (LIL Funding Trust) in accordance with the IT Project Finance Agreement (IT PFA), and to on-lend the proceeds to LIL LP in accordance with the LIL Project Finance Agreement (LIL PFA). The proceeds of the debt facility are to be used exclusively for the construction of the LIL as part of Phase 1 of the Lower Churchill Project.

LIL Holdco includes the financial statements of investees (including structured entities) only when it has control as defined in *IFRS 10 – Consolidated Financial Statements*. In accordance with IFRS 10, control is achieved when LIL Holdco:

- has power over the relevant activities of the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect those variable returns.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Based on the criteria outlined in IFRS 10, LIL Holdco has determined that it controls the Partnership and the IT for financial reporting purposes. LIL Holdco uses judgment in assessing many factors to determine control of the Partnership and the IT, including its exposure to variability in the IT's investments, its role in the formation of the entities and its related party relationship with the general partner. LIL Holdco has determined that it does not control the LIL Funding Trust and as such has not included the accounts of the LIL Funding Trust in these annual audited consolidated financial statements.

2.3 Cash

Cash consist of amounts on deposit with a Schedule 1 Canadian Chartered Bank.

2.4 Restricted Cash

Restricted cash consists of cash held on deposit with Schedule 1 Canadian Chartered Banks and administered by the Collateral Agent for the sole purpose of funding construction costs related to the LIL, including pre-funded equity amounts required under the LIL PFA. The Partnership draws funds from these accounts in accordance with procedures set out in the LIL PFA. Restricted cash also includes accounts administered by the Administrator of the IT.

2.5 Property, Plant and Equipment

Items of property, plant and equipment are recognized at cost less accumulated depreciation and accumulated impairment losses. Cost includes materials, labour, contracted services, professional fees and, for qualifying assets, borrowing costs capitalized in accordance with LIL Holdco's accounting policy outlined in Note 2.7. Costs capitalized with the related asset include all costs directly attributable to bringing the asset into operation.

When significant parts of property, plant and equipment are required to be replaced at intervals, LIL Holdco recognizes such parts as individual assets with specific useful lives and depreciation rates, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repairs and maintenance costs are recognized in profit or loss as incurred.

Depreciation of these assets commences when the assets are ready for their intended use. Residual values, useful lives and method of depreciation are reviewed at the end of year and adjusted prospectively, if appropriate. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Project support assets	6 - 7 years
Service facilities and other assets	7 - 45 years

As use of the project support assets is directly attributable to the construction of the LIL, related depreciation costs are capitalized as incurred, until such time as the assets are substantially ready for their intended use or sale.

2.6 Intangible Assets

Intangible assets that are expected to generate future economic benefit and are measurable, including computer software costs and assets under development are capitalized as intangible assets in accordance with IAS 38.

Intangible assets with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. 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 the LIL is available for use and will be amortized over the term of the TFA. As use of the intangible assets is directly attributable to the construction of the LIL, related amortization costs are capitalized as incurred. The estimated useful life and amortization method are reviewed at the end of each reporting year, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

2.7 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in the Consolidated Statement of Profit and Comprehensive Income in the period in which they are incurred.

2.8 Impairment of Non-Financial Assets

Property and equipment and other non-financial assets, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Where it is not possible to estimate the recoverable amount of an individual asset, LIL Holdco estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from non-financial assets.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the Consolidated Statement of Profit and Comprehensive Income.

2.9 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 Consolidated Statement of Financial Position date using the current discount rate.

2.10 Revenue Recognition

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

2.11 Leasing

Lessee Accounting

LIL Holdco assesses whether a contract is or contains a lease, at inception of a contract. LIL Holdco recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets. For these leases, LIL Holdco would normally recognize the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. However, as LIL Holdco is still in the construction phase of its operations, lease payments are subsequently capitalized within property, plant and equipment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, LIL Holdco uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed (and in-substance) lease payments less any lease incentives;
- variable lease payments that depend on an index or rate; and

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- payments expected under residual value guarantees and payments relating to purchase options and renewal option periods that are reasonably certain to be exercised (or periods subject to termination options that are not reasonably certain to be exercised).

The lease liability is subsequently measured at amortized cost using the effective interest rate method. Lease liabilities are remeasured, with a corresponding adjustment to the related right-of-use assets, when there is a change in variable lease payments arising from a change in an index or rate, or when LIL Holdco changes its assessment of whether purchase, renewal or termination options will be exercised

LIL Holdco did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and accumulated impairment losses.

Whenever LIL Holdco incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under *IAS 37 - Provisions, Contingent Liabilities and Contingent Assets*. The costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the shorter period of the lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that LIL Holdco expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of the lease.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments would normally be recognized as an expense in operating costs in the period in which the event or condition that triggers those payments occurs. However, as LIL Holdco is still in the construction phase of its operations, these payments are subsequently capitalized within property, plant and equipment.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. LIL Holdco has elected to apply this practical expedient.

2.12 Foreign Currencies

Transactions in currencies other than LIL Holdco'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 Consolidated Statement of Profit and Comprehensive Income as other (income) expense.

2.13 Income Taxes

Provision has not been made in LIL LP's annual audited consolidated financial statements for Canadian federal, provincial, or local taxes since any such liabilities are the responsibility of the individual partners. LIL Holdco is exempt from paying income taxes under Section 149(1) (d.2) of the Income Tax Act.

2.14 Financial Instruments

Classification and Initial Measurement

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

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Financial assets are classified at amortized cost, fair value through other comprehensive income (FVTOCI), fair value through profit or loss (FVTPL) or as derivatives designated as hedging instruments in an effective hedge. Financial liabilities are classified as financial liabilities designated at 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 Assets at Amortized Cost

Financial assets with contractual cash flows arising on specified dates, consisting solely of principal and interest, and that are held within a business model whose objective is to collect the contractual cash flows are subsequently measured at amortized cost using the effective interest rate method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

LIL Holdco's financial assets at amortized cost include cash, restricted cash, investments, trade and other receivables and advances.

Financial Liabilities at Amortized Cost

LIL Holdco 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 Holdco's financial liabilities at amortized cost include trade and other payables and long-term debt.

Derecognition of Financial Instruments

LIL Holdco derecognizes a financial asset 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 party.

LIL Holdco 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.

Impairment of Financial Assets

LIL Holdco recognizes a loss allowance for expected credit losses (ECL) on investments in debt instruments that are measured at amortized cost or at FVTOCI. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

LIL Holdco always recognizes lifetime ECL for trade and other receivables. The ECL on these financial assets are estimated based on LIL Holdco's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. LIL Holdco also records 12-month ECL for those financial assets which have low credit risk and where the low credit risk exemption has been applied. The classes of financial assets that have been identified to have low credit risk consist of cash, restricted cash, investments and advances.

For all other financial instruments, LIL Holdco recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, LIL Holdco measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default

events on a financial instrument that are possible within 12 months after the reporting date.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the annual audited consolidated 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 including, but not limited to, allocations of costs among entities. Actual results may differ materially 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

(i) Property, Plant and Equipment

LIL LP's accounting policy relating to property, plant and equipment is described in Note 2.5. In applying this policy, judgment is used in determining whether certain costs are additions to the carrying amount of the property, plant and equipment as opposed to repairs and maintenance. If an asset has been developed, judgment is required to identify the point at which the asset is capable of being used as intended and to identify the directly attributable borrowing costs to be included in the carrying value of the development asset. Judgment is also used in determining the appropriate componentization structure for LIL LP's property, plant and equipment.

(ii) Functional currency

Functional currency was determined by evaluating the primary economic environment in which the Company operates. As the Company enters into transactions in multiple currencies, judgment is used in determining the functional currency. Management considered factors regarding currency of sales, costs incurred, and operating and financing activities and determined the functional currency to be CAD.

(iii) Consolidation

Management applies its judgment when determining whether to consolidate structured entities in accordance with the criteria outlined in IFRS 10.

(iv) Leases

Definition of a lease

At inception of a contract, LIL Holdco assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, LIL Holdco assesses whether the contract involves the use of an identified asset, LIL Holdco has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use and LIL Holdco has the right to direct the use of the asset.

Lease extension and termination options

In determining the lease term, LIL Holdco considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. The assessment is reviewed if a significant event or a significant change in circumstances occurs within its control. The assessment requires the consideration of facts and circumstances such as contractual terms and conditions for option periods, significant leasehold improvements undertaken, costs to terminate the lease, the importance of the asset to the lessee's operations and past practice.

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3.2 Use of Estimates

(i) Property, Plant and Equipment

Amounts recorded for depreciation are based on the useful lives of the Partnership's assets. The useful lives of property, plant and equipment are determined by Management's best estimate of the service lives of these assets and are reviewed on an annual basis. Changes to these lives could materially effect the amount of depreciation recorded.

(ii) Intangible Assets

Amounts recorded for amortization are based on the useful lives of the Partnership's assets. These useful lives are Management's best estimate of the service lives of these assets and are reviewed on an annual basis. Changes to these lives could materially affect the amount of amortization recorded.

(iii) Class B Limited Partnership Units

The Company determines the fair value of the Class B limited partnership units at each financial reporting date. These units represent Emera NL's ownership interest in the Partnership. Due to the nature of the liability and lack of comparable market data, the fair value of the Class B limited partnership unit liability is determined using the present value of future cash flows. Significant assumptions used in the determination of fair value include estimates of the amount and timing of future cash flows and the discount rate.

The process of valuing a financial liability for which no published market price exists is based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the liability. These differences could be material to the fair value of the financial liability.

(iv) Leases incremental borrowing rate

LIL Holdco uses its incremental borrowing rates in measuring its lease liabilities. The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The determination of the incremental borrowing rate requires the consideration of different components, all of which are to incorporate a number of important lease characteristics.

4. CURRENT AND FUTURE CHANGES IN ACCOUNTING POLICIES

The following is a list of standards/interpretations that have been issued and are effective for accounting periods commencing on January 1, 2019 or January 1, 2020, as specified.

- IFRS 16 – Leases¹
- IAS 23 – Borrowing Costs (Amendments to IAS 23)¹
- IAS 1 – Presentation of Financial Statements² and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors² (Amendments to IAS 1 and IAS 8)

¹ Effective for annual periods beginning on or after January 1, 2019.

² Effective for annual periods beginning on or after January 1, 2020.

4.1 IFRS 16 – Leases

Effective January 1, 2019 LIL Holdco adopted *IFRS 16 – Leases* which introduces significant changes to lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low-value assets.

LIL Holdco has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under *IAS 17 – Leases and IFRIC 4 – Determining Whether an Arrangement contains a Lease*.

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Impact of the new definition of a lease

LIL Holdco has not elected to apply the practical expedient available on transition to IFRS 16, not to reassess whether a contract is or contains a lease at the date of initial application.

In preparation for the first-time application of IFRS 16, LIL Holdco has carried out an implementation project which has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for LIL Holdco.

Impact on Lessee Accounting

Former operating leases

IFRS 16 changes how LIL Holdco accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet.

Applying IFRS 16, for all leases (except as noted below), LIL Holdco

- (a) recognizes right-of-use assets and lease liabilities in the Consolidated Statement of Financial Position, initially measured at the present value of future lease payments;
- (b) capitalizes depreciation of right-of-use assets and interest on lease liabilities as use of these assets is directly attributable to the construction of the LIL; and
- (c) separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the Consolidated Statement of Cash Flows.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), LIL Holdco would normally opt to recognize a lease expense on a straight-line basis as permitted by IFRS 16. However, as LIL Holdco is still in the construction phase of its operations, LIL Holdco has capitalized the lease payments within property, plant and equipment.

Former finance leases

The main difference between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of residual value guarantees provided by a lessee to a lessor. LIL Holdco did not have any leases previously accounted for as finance leases under IAS 17, therefore, this change did not have an effect on its financial statements.

Impact on Lessor Accounting

IFRS 16 does not substantially change how a lessor accounts for leases. The changes to lessor accounting did not have an effect on LIL Holdco's financial statements.

Financial impact of the application of IFRS 16

On transition to IFRS 16, LIL Holdco recognized lease liabilities in relation to leases which had previously been classified as operating leases under IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using LIL Holdco's incremental borrowing rate as of January 1, 2019. The weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 3.057% - 4.566%. The associated right-of-use assets were measured at the amount equal to the corresponding lease liabilities totalling \$2.8M.

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(thousands of Canadian dollars)

Operating lease commitments disclosed as at December 31, 2018	-
Additional operating lease commitments recognized under IFRS 16 as at January 1, 2019	7,902
Total operating lease commitments	7,902
Discounted using the incremental borrowing rate of 3.057% - 4.566%	4,177
Less: short-term leases recognized on a straight-line basis	(1,299)
Less: low-value leases	(89)
Lease liability recognized as at January 1, 2019	2,789

In applying IFRS 16, LIL Holdco elected to use the following practical expedients, permitted by the standard:

- a) accounting for operating leases with a remaining lease term of less than 12 months at January 1, 2019 as short-term leases;
- b) the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- c) the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

4.2 IAS 23 – Borrowing Costs (Amendments to IAS 23)

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. The application of these amendments to IAS 23 did not have a material impact on LIL Holdco's annual audited consolidated financial statements.

4.3 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 Holdco's materiality judgments.

5. INVESTMENTS

<i>As at December 31 (thousands of Canadian dollars)</i>	Year of Maturity	2019	2018
\$75.0 million Floating Rate Deposit Note, with interest paid at the one-month Canadian Dollar Offered Rate (CDOR) plus 0.20%.	2019	-	75,000
\$182.9 million Amortizing Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.20%.	2019	-	7,631
\$548.6 million Amortizing Fixed Rate Deposit Note, with interest paid at a rate of 1.644% per annum.	2019	-	22,892
Total investments, end of the year		-	105,523

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6. TRADE AND OTHER RECEIVABLES

<i>As at December 31 (thousands of Canadian dollars)</i>	2019	2018
HST receivable	4,746	6,422
Interest receivable	862	881
Insurance receivable	480	-
	6,088	7,303

7. 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.

8. PROPERTY, PLANT AND EQUIPMENT

<i>(thousands of Canadian dollars)</i>	Project support assets	Construction in Progress	Other	Total
Cost				
Balance at January 1, 2018	6,070	3,730,343	-	3,736,413
Additions	-	347,006	-	347,006
Balance at December 31, 2018	6,070	4,077,349	-	4,083,419
Additions	-	261,036	2,535	263,571
Balance at December 31, 2019	6,070	4,338,385	2,535	4,346,990
Depreciation				
Balance at January 1, 2018	1,278	-	-	1,278
Depreciation	1,983	-	-	1,983
Balance at December 31, 2018	3,261	-	-	3,261
Depreciation	1,983	-	-	1,983
Balance at December 31, 2019	5,244	-	-	5,244
Carrying value				
Balance at January 1, 2018	4,792	3,730,343	-	3,735,135
Balance at December 31, 2018	2,809	4,077,349	-	4,080,158
Balance at December 31, 2019	826	4,338,385	2,535	4,341,746

Capitalized Borrowing Costs

The construction of the LIL is being financed, in part, through the issuance of long-term debt. For the year ended December 31, 2019, \$119.4 million (2018 - \$115.3 million) of borrowing costs were capitalized. The Company also capitalized borrowing costs associated with the Class B units of \$45.3 million (2018 - \$41.8 million) as non-cash additions to property, plant and equipment.

LABRADOR - ISLAND LINK HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. INTANGIBLE ASSETS

<i>(thousands of Canadian dollars)</i>	Computer Software	Assets Under Development	Total
Cost			
Balance at January 1, 2018	2,140	32,702	34,842
Additions	102	1,721	1,823
Balance at December 31, 2018	2,242	34,423	36,665
Additions	109	734	843
Balance at December 31, 2019	2,351	35,157	37,508
Amortization			
Balance at January 1, 2018	1,959	-	1,959
Amortization	230	-	230
Balance at December 31, 2018	2,189	-	2,189
Amortization	98	-	98
Balance at December 31, 2019	2,287	-	2,287
Carrying value			
Balance at January 1, 2018	181	32,702	32,883
Balance at December 31, 2018	53	34,423	34,476
Balance at December 31, 2019	64	35,157	35,221

10. RIGHT-OF-USE ASSETS

LIL Holdco has leases for various properties, including easements, and leases for equipment rentals. The fixed period on these contracts range between 1-60 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Extension and termination options are included in a number of property leases and easements across LIL Holdco. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by LIL Holdco and not by the respective lessor.

<i>(thousands of Canadian dollars)</i>	Property	Equipment	Total
Cost			
Balance at January 1, 2019	2,347	442	2,789
Balance at December 31, 2019	2,347	442	2,789
Depreciation			
Balance at January 1, 2019	-	-	-
Depreciation	46	93	139
Balance at December 31, 2019	46	93	139
Carrying value			
Balance at January 1, 2019	2,347	442	2,789
Balance at December 31, 2019	2,301	349	2,650

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. TRADE AND OTHER PAYABLES

<i>As at December 31 (thousands of Canadian dollars)</i>	2019	2018
Trade payables	19,861	44,039
Payables due to related parties	11,924	17,281
Accrued interest	12,985	12,985
HST payable	2,586	1,740
	47,356	76,045

12. LEASE LIABILITIES

<i>As at December 31 (thousands of Canadian dollars)</i>	2019
Maturity analysis – contractual undiscounted cash flows	
Less than one year	221
One to five years	755
More than five years	5,366
Total undiscounted lease liabilities	6,342
Lease liabilities included in the Consolidated Statement of Financial Position	
Current lease liabilities	107
Non-current lease liabilities	2,595
Total lease liabilities	2,702

Interest on lease liabilities, expenses relating to short-term and low-value leases and variable lease payments not included in the measurement of leases are capitalized within property, plant and equipment as permitted by IAS 16 - *Property, Plant and Equipment*.

The total cash outflow for leases for the year ended December 31, 2019 is \$1.3 million.

13. LONG-TERM DEBT

The following table represents the value of long-term debt measured at amortized cost as at December 31:

<i>As at (thousands of Canadian dollars)</i>	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	2019	2018
Tranche A	725,000	3.76	2013	2033	725,210	725,226
Tranche B	600,000	3.86	2013	2045	600,093	600,096
Tranche C	1,075,000	3.85	2013	2053	1,075,192	1,075,197
Tranche 1-10	105,000	1.14-1.75	2017	2020-2025	105,014	105,020
Tranche 11-20	105,000	1.84-2.37	2017	2025-2030	105,025	105,028
Tranche 21-30	105,000	2.41-2.64	2017	2030-2035	105,049	105,053
Tranche 31-40	105,000	2.66-2.80	2017	2035-2040	105,101	105,107
Tranche 41-50	105,000	2.81-2.86	2017	2040-2045	105,106	105,111
Tranche 51-60	105,000	2.84-2.86	2017	2045-2050	105,135	105,140
Tranche 61-70	105,000	2.85	2017	2050-2055	105,196	105,202
Tranche 71-74	315,000	2.85	2017	2055-2057	315,632	315,648
Total	3,450,000				3,451,753	3,451,828
Less: maturities of debt within one year					(10,500)	-
					3,441,253	3,451,828

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On November 29, 2013, the IT entered into the IT PFA with LIL LP, LIL Opco, the LIL Funding Trust and the Collateral Agent. Under the terms and conditions of the IT PFA, the LIL Funding Trust agreed to provide a credit facility in the amount of \$2.4 billion available in three tranches (Tranches A, B and C) to the IT, which itself proceeded to on-lend this amount to the Partnership under the terms of the LIL PFA. On December 13, 2013, all three tranches of the construction facility were drawn down by way of a single advance to the IT of \$2.4 billion to an account administered by the Collateral Agent. On May 10, 2017, the IT entered into second amendments to the IT PFA and the LIL PFA. Under the terms and conditions of the second amended IT PFA, the LIL Funding Trust agreed to provide an additional credit facility in the amount of \$1.05 billion to the IT. These facilities, available in a series of 74 bonds with maturities of every six months beginning in December 2020, were fully drawn down by the IT on May 25, 2017 by way of a single advance to an account administered by a Collateral Agent. LIL LP draws funds from this account on a monthly basis in accordance with procedures set out in the LIL PFA. As at December 31, 2019, the \$2.4 billion construction facility was fully utilized by the Partnership (2018 - \$2.4 billion) and \$1.0 billion of the second construction facility was utilized by the Partnership (2018 - \$0.7 billion).

The role of the Collateral Agent is to act on behalf of the lending parties, including the LIL Funding Trust and the Government of Canada. The Collateral Agent oversees the lending and security arrangements, the various project accounts and the compliance with covenants.

The purpose of the LIL Funding Trust is to issue long-term debentures to the public and to on-lend the proceeds to the IT, which in turn on-lends funds to the Partnership. The financing of the LIL Funding Trust benefits from a direct, absolute, unconditional and irrevocable guarantee from the Government of Canada, and thereby carries its full faith and credit (AAA rating or equivalent). Included in the terms of the guarantee, LIL LP agreed to pay an annual fee starting in May 2018 equal to 0.5% of the average balance outstanding on Tranches 1 through 74 for the prior twelve months.

As security for these debt obligations, LIL LP has granted to the Collateral Agent first ranking liens on all present and future assets. Sinking funds are required to be set up for the Tranche A, B and C debentures and are to be held in a sinking fund account under the control of the Collateral Agent.

Sinking fund installments due for the next five years are as follows:

<i>(thousands of Canadian dollars)</i>	2020	2021	2022	2023	2024
Sinking fund instalments	27,885	55,769	55,769	55,769	55,769

14. DEFERRED REVENUE

LIL Opco has the option to prepay rent in accordance with the LIL Lease. For the year ended December 31, 2019, LIL Opco had a prepayment balance of \$52.3 million (2018 - \$36.5 million) to the Partnership. The Partnership has recognized these prepayments as deferred revenue which will be amortized to income once the LIL is in-service.

15. LIMITED PARTNERSHIP UNITS

Debt and equity instruments issued by LIL Holdco 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 Class B limited partnership units represent Emera NL's ownership interest in the Partnership. 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Class B Limited Partnership Units

<i>As at December 31 (thousands of Canadian dollars)</i>	Units	2019	Units	2018
Class B limited partnership units, beginning of year	25	533,058	25	491,298
Accrued interest	-	45,310	-	41,760
Class B limited partnership units, end of year	25	578,368	25	533,058

16. SHAREHOLDER'S EQUITY

Share Capital

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

17. NET FINANCE INCOME

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	2019	2018
Finance income		
Interest on investments	207	5,041
Other interest income	11,134	7,925
	11,341	12,966
Finance expense		
Interest and fees on long-term debt	124,320	124,315
Interest on Class B limited partnership units	45,310	41,760
Interest on lease liabilities	118	-
Bank charges	10	11
	169,758	166,086
Interest capitalized during construction	(164,658)	(157,089)
	5,100	8,997
Net finance income	6,241	3,969

18. OPERATING COSTS

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	2019	2018
Salaries and benefits	1,713	494
Training	486	664
Professional services	150	18
Cost recoveries and other	73	105
Travel and transportation	33	-
Donations and community involvement	8	92
	2,463	1,373

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19. OTHER (INCOME) EXPENSE

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	2019	2018
Realized foreign exchange (gain) loss	(5)	10
Unrealized foreign exchange (gain) loss	(26)	46
Other (income) expense	(31)	56

20. DISTRIBUTION OF INCOME

In accordance with the LIL Declaration of Trust, the Project Trust elects to make an annual distribution of income to the beneficiaries of the Trust, which is designated as a registered charity in Nova Scotia.

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

21.1 Fair Value

The estimated fair values of financial instruments as at December 31, 2019 and 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 below are not necessarily indicative of the amounts that LIL Holdco might receive or incur in actual market transactions.

As a significant number of LIL Holdco'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 Holdco 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, 2019 and 2018.

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	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>As at (thousands of Canadian dollars)</i>		December 31, 2019		December 31, 2018	
Financial assets					
Investments	2	-	-	105,523	105,519
Financial liabilities					
Long-term debt including amount due within one year	2	3,451,753	4,178,940	3,451,828	3,829,883
Class B limited partnership units	3	578,368	578,368	533,058	533,058

The fair values of cash, restricted cash, trade and other receivables, advances 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.

The Class B limited partnership units are carried at amortized cost, calculated using the effective interest method, which approximates fair value. The effective interest rate of 8.5% (2018 - 8.5%) is defined in the Newfoundland and Labrador Development Agreement as Emera NL's rate of return on equity, and is equal to the rate approved by the Newfoundland and Labrador Board of Commissioners of Public Utilities 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 Company's Level 3 financial liabilities given a one 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 B limited partnership units	(23,310)	22,515

21.2 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. 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, primarily due to the potential for non-performance by counterparties to its financial instruments. Credit risk on cash, restricted cash and investments is minimal, as the Company's deposits are held by Canadian Schedule 1 Chartered Banks with ratings of A, A+ and AA- (Standard and Poor's). The degree of exposure to credit risk on trade and other receivables and advances is determined by the financial capacity and stability of the counterparties whereby the maximum risk is represented by their carrying value on the Consolidated Statement of Financial Position at the reporting date.

Liquidity Risk

The Company is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. Liquidity risk management activities are directed at ensuring cash is available to meet those obligations as they become due. Short-term liquidity is provided through restricted cash, cash on hand, partnership contributions and shareholder contributions. The Company can access the funds drawn down from the construction facility and partnership contributions for the payment of construction costs as well as interest payments.

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The following are the contractual maturities of LIL Holdco financial liabilities, including principal, sinking fund and interest as at December 31, 2019:

<i>(thousands of Canadian dollars)</i>	< 1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	47,356	-	-	-	47,356
Long-term debt (including interest and sinking fund)	157,438	390,982	389,761	5,580,162	6,518,343
Unit B partnership units	9,857	153,711	152,857	3,190,687	3,507,112
	214,651	544,693	542,618	8,770,849	10,072,811

Market Risk

In the course of carrying out its operating, financing and investing activities, 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 whose value would materially vary due to fluctuations in foreign currency exchange rates. Cash flow exposure to foreign exchange risk arises primarily through investing activities, most notably US dollar denominated capital expenditures, and regular procurement activities. Exposure arising from capital expenditures is evaluated on a case by case basis. Where possible, contracts are denominated in CAD.

22. RELATED PARTY TRANSACTIONS

LIL Holdco 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 Holdco transacts are as follows:

Related Party	Relationship
Nalcor	100% shareholder of LIL Holdco
Hydro	Wholly-owned subsidiary of Nalcor
Emera NL	Limited Partner holding 25 Class B limited partnership units of LIL LP
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

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

- (a) As at December 31, 2019, LIL Holdco has related party payables totaling \$11.9 million (2018 - \$17.3 million) with Nalcor, LCMC, Muskrat Falls and Labrador Transco. These payables consist of various intercompany operating and construction costs.
- (b) For the year ended December 31, 2019, LIL LP had incurred costs of \$0.7 million (2018 - \$1.7 million) related to assets under development which LIL Holdco controls the right to collect costs through the LIL Lease and TFA with LIL Opco and Hydro.

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- (c) For the year ended December 31, 2019, Nalcor made contributions to LIL Holdco in the amount of \$114.7 million (2018 - \$77.2 million)
- (d) For the year ended December 31, 2019, LIL Opco prepaid rent to the Partnership in the amount of \$15.8 million (2018 - \$11.6 million).

23. 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 following commissioning of the LIL.
- (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. The Company has pledged the escrow account, where the pre-funded equity contribution has been deposited, as security to the Collateral Agent.
- (c) Under the terms and conditions of the Partnership Agreement, LIL Holdco has committed to fund its share of the capital expenditures of the LIL.
- (d) LIL LP has entered into the LIL Lease and the TFA with LIL Opco and Hydro, whereby LIL LP has committed to design and construct the LIL and LIL Opco will operate and maintain the LIL at commissioning and provide such other services as agreed to ensure safe and reliable transmission of electricity. During 2018, LIL LP also entered into the Interim Transmission Funding Agreement with Hydro, whereby LIL LP will operate and maintain the LIL pre-commissioning during the pre-full commissioning interim use period and provide such services as agreed to ensure safe and reliable transmission of electricity.
- (e) 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 will not materially affect its financial position.
- (f) Outstanding commitments for capital projects total approximately \$11.3 million as at December 31, 2019 (2018 - \$29.2 million). Pre-funded equity requirements associated with the LIL PFA are \$nil as at December 31, 2019 (2018 - \$77.2 million). Pre-funded equity is used to fund capital and borrowing costs.

24. CAPITAL MANAGEMENT

Capital includes partner capital, share capital, shareholder contributions, deficit and long-term debt. LIL Holdco's objective when managing capital is to maintain its ability to continue as a going concern and fund the construction of the LIL. The focus of the capital management policy is to provide flexibility to ensure cash continues to be available to satisfy capital requirements. During this time, it is expected that proceeds from long-term debt and shareholder contributions will be sufficient to fund the development of the LIL.

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25. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	2019	2018
Trade and other receivables	1,196	55,294
Prepayments	-	925
Trade and other payables	(28,689)	(59,996)
Changes in non-cash working capital balances	(27,493)	(3,777)
Related to:		
Operating activities	(57)	-
Investing activities	(27,436)	(3,777)
	(27,493)	(3,777)

26. SUBSEQUENT EVENT

On February 10, 2020, the provincial and federal governments announced a plan to negotiate a financial restructuring of the Lower Churchill Project, including a deferral of sinking fund payments and Cost Overrun Escrow Account payments, if required. A formal agreement between both levels of government is anticipated to be implemented by project commissioning.