LABRADOR - ISLAND LINK OPERATING CORPORATION
FINANCIAL STATEMENTS
December 31, 2019

Deloitte.

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Independent Auditor's Report

To the Shareholder of Labrador-Island Link Operating Corporation

Opinion

We have audited the financial statements of Labrador – Island Link Operating Corporation (the "Company"), which comprise the statement of financial position as at December 31, 2019, and the statements 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.

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 OPERATING CORPORATION
STATEMENT OF FINANCIAL POSITION

As at December 31 (thousands of Canadian dollars)	Notes	**2019**	2018
ASSETS			
Current assets			
Short-term investments		**11**	11
Other receivables	5	**2,372**	1,741
Total current assets		**2,383**	1,752
Non-current assets			
Prepaid rent	6	**52,300**	36,500
Total assets		**54,683**	38,252
LIABILITIES AND EQUITY			
Current liabilities			
Other payables	7	**152**	128
Total liabilities		**152**	128
Shareholder's equity			
Share capital	8	**1**	1
Shareholder contributions		**54,609**	38,206
Deficit		**(79)**	(83)
Total equity		**54,531**	38,124
Total liabilities and equity		**54,683**	38,252

Commitments and contingencies (Note 12)

See accompanying notes

On behalf of the Board:

DIRECTOR

DIRECTOR

LABRADOR - ISLAND LINK OPERATING CORPORATION
STATEMENT OF PROFIT (LOSS) AND COMPREHENSIVE INCOME (LOSS)

For the year ended December 31 (thousands of Canadian dollars)	Notes	**2019**	2018
Finance income		**28**	18
Operating costs	9	**24**	23
Total profit (loss) and comprehensive income (loss) for the year		**4**	(5)

See accompanying notes

LABRADOR - ISLAND LINK OPERATING CORPORATION
STATEMENT OF CHANGES IN EQUITY

(thousands of Canadian dollars)	Notes	Share Capital	Shareholder Contributions	Deficit	Total
Balance at January 1, 2019		**1**	**38,206**	**(83)**	**38,124**
Total profit and comprehensive income for the year		**-**	**-**	**4**	**4**
Shareholder contributions	**11**	**-**	**16,403**	**-**	**16,403**
Balance at December 31, 2019		**1**	**54,609**	**(79)**	**54,531**
Balance at January 1, 2018		1	26,204	(78)	26,127
Total loss and comprehensive loss for the year		-	-	(5)	(5)
Shareholder contributions	11	-	12,002	-	12,002
Balance at December 31, 2018		1	38,206	(83)	38,124

See accompanying notes

LABRADOR - ISLAND LINK OPERATING CORPORATION
STATEMENT OF CASH FLOWS

For the year ended December 31 (thousands of Canadian dollars)	Notes	**2019**	2018
Operating activities			
Profit (loss) for the year		**4**	(5)
Adjustments to reconcile profit (loss) to cash used in operating activities:			
Finance income		**(28)**	(18)
Changes in non-cash working capital balances			
Change in other receivables		**(630)**	(420)
Change in other payables		**24**	24
Interest received		**27**	18
Net cash used in operating activities		**(603)**	(401)
Investing activities			
Increase in prepaid rent	11	**(15,800)**	(11,600)
Change in investments		**-**	(1)
Net cash used in investing activities		**(15,800)**	(11,601)
Financing activity			
Increase in shareholder contributions	11	**16,403**	12,002
Net cash provided from financing activity		**16,403**	12,002
Net increase (decrease) in cash		**-**	-
Cash, beginning of the year		**-**	-
Cash, end of the year		**-**	-

See accompanying notes

1. DESCRIPTION OF BUSINESS

Labrador-Island Link Operating Corporation (LIL Opco or the Company), was incorporated on November 13, 2013 under the laws of Newfoundland and Labrador. LIL Opco is a 100% owned subsidiary of Nalcor Energy (Nalcor). LIL Opco's head office is located at 500 Columbus Drive, St. John's, Newfoundland and Labrador, A1B 0M5, Canada.

LIL Opco was formed to operate and maintain the Labrador-Island Link (LIL). The LIL consists of equipment and facilities constructed between the Labrador Transmission Assets (LTA) and the Newfoundland and Labrador Island Interconnected System.

LIL Opco has entered into the LIL Lease Agreement (LIL Lease) with the Labrador-Island Link Limited Partnership (LIL LP) and the Transmission Funding Agreement (TFA) with Newfoundland and Labrador Hydro (Hydro). As a result of these agreements, LIL Opco will be the transmission owner for purposes of offering transmission service to Hydro over the LIL during the term of the TFA.

2. SIGNIFICANT ACCOUNTING POLICIES

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 Opco 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 Opco's Board of Directors on February 26, 2020.

2.2 Restricted Cash

Cash held in accounts administered by the Collateral Agent, under the terms of the LIL Collateral Agency Agreement and Blocked Account Agreement, is classified as restricted cash.

2.3 Short-term Investments

Investments with maturities greater than three months and less than twelve months are classified as short-term investments.

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 Leasing

Lessee Accounting

LIL Opco assesses whether a contract is or contains a lease, at inception of a contract. LIL Opco 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 Opco recognizes 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.

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 Opco 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,
- 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 not reasonably certain to be exercised).

The lease liability is subsequently measured at amortized cost using the effective interest 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 Opco changes its assessment of whether purchase, renewal or termination options will be exercised.

LIL Opco 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 impairment losses.

Whenever LIL Opco 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 Opco 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 are recognized as an expense in operating costs in the period in which the event or condition that triggers those payments occurs.

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 Opco has elected to apply this practical expedient.

2.7 Income Taxes

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

2.8 Financial Instruments

Classification and Initial Measurement

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

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 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 Opco's financial assets at amortized cost include short-term investments and other receivables.

Financial Liabilities at Amortized Cost

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

Derecognition of Financial Instruments

LIL Opco 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 Opco 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 Opco recognizes a loss allowance for expected credit losses (ECL) on investments in debt instruments that are measured at amortized cost. 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 Opco always recognizes lifetime ECL for trade and other receivables. The ECL on these financial assets are estimated based on LIL Opco'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 Opco 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 are restricted cash and short-term investments.

For all other financial instruments, LIL Opco 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 Opco 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 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 Judgments

Leases

Definition of a lease
At inception of a contract, LIL Opco 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 Opco assesses whether the contract involves the use of an identified asset, LIL Opco has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use and LIL Opco has the right to direct the use of the asset.

Lease extension and termination options
In determining the lease term, LIL Opco 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.

3.2 Use of Estimates

Leases incremental borrowing rate
LIL Opco 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 – Leases[1]
- IAS 1 – Presentation of Financial Statements[2] and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors[2] (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 Opco 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 Opco 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*.

Impact of the new definition of a lease

LIL Opco 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 Opco 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 Opco.

Impact on Lessee Accounting

Former operating leases

IFRS 16 changes how LIL Opco 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 Opco:

a) recognizes right-of-use assets and lease liabilities in the Statement of Financial Position, initially measured at the present value of future lease payments;
b) recognizes depreciation of right-of-use assets and interest on lease liabilities in the Statement of Profit (Loss) and Comprehensive Income (Loss); 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 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 Opco has opted to recognize a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within operating costs in the Statement of Profit (Loss) and Comprehensive Income (Loss).

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 Opco 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 Opco's financial statements.

Financial impact of the application of IFRS 16

The adoption of IFRS 16 had no impact on LIL Opco's financial statements.

4.2 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 Opco's materiality judgments.

5. OTHER RECEIVABLES

As at December 31 (thousands of Canadian dollars)	**2019**	2018
HST receivable	**2,370**	1,740
Accrued interest	**2**	1
	2,372	1,741

6. PREPAID RENT

Under the terms and conditions of the LIL Lease, LIL Opco shall have, at its sole discretion and option, the right to prepay all or a portion of the rent due and payable for a future year(s) to LIL LP. The amount of prepaid rent as of December 31, 2019 was $52.3 million (2018 - $36.5 million). The prepaid rent will be applied to rent following in-service of the LIL.

7. OTHER PAYABLES

As at December 31 (thousands of Canadian dollars)	**2019**	2018
Payables due to related parties	**147**	120
Accrued liabilities	**5**	8
	152	128

8. SHAREHOLDER'S EQUITY

Share Capital

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

9. OPERATING COSTS

For the year ended December 31 (thousands of Canadian dollars)	**2019**	2018
Professional services	**12**	11
Cost recoveries	**10**	10
Salaries and benefits	**1**	2
Other operating costs	**1**	-
	24	23

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

10.1 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 Opco might receive or incur in actual market transactions.

As a significant number of LIL Opco's assets and liabilities do not meet the definition of a financial instrument, the fair value estimates disclosed do not reflect the fair value of LIL Opco as a whole.

Establishing Fair Value
Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the nature of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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 values of short-term investments, other receivables and other payables approximate their carrying values due to their short-term maturity.

10.2 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
LIL Opco'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 investments is minimal, as LIL Opco's deposits are held by a Canadian Schedule 1 Chartered Bank with a rating of AA- (Standard and Poor's). The degree of exposure to credit risk on other receivables is determined by the financial capacity and stability of the counterparties. The maximum exposure to credit risk on these financial instruments is represented by their carrying value on the Statement of Financial Position at the reporting date.

Liquidity Risk
LIL Opco 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 equity contributions. Long-term liquidity risk is considered minimal as LIL Opco's obligations are to LIL LP and are funded entirely by Hydro under the terms of the TFA.

Market Risk
LIL Opco may be 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
LIL Opco does not hold any financial instruments whose value would vary due to changes in a commodity price or fluctuations in foreign currency exchange rates.

11. RELATED PARTY TRANSACTIONS

LIL Opco enters into various transactions with its parent and other affiliates. These transactions occur within the normal course of operations and are measured at the exchange amount, which is the amount of consideration agreed to by the related parties. Related parties with which LIL Opco transacts are as follows:

Related Party	Relationship
Nalcor	100% shareholder of LIL Opco
Hydro	Wholly-owned subsidiary of Nalcor
Lower Churchill Management Corporation (LCMC)	Wholly-owned subsidiary of Nalcor
LIL LP	Limited partnership between Labrador-Island Link Holding Corporation and Emera Newfoundland and Labrador Island Link Inc.
LIL Construction Project Trust	Party to the LIL Project Finance Agreement (LIL PFA) and the IT Project Finance Agreement

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

(a) For the year ended December 31, 2019, LIL Opco has prepaid $15.8 million (2018 - $11.6 million) in rent for future services of the LIL.

(b) At December 31, 2019, LIL Opco has related party payables totaling $0.1 million (2018 - $0.1 million) with Nalcor and LCMC. These payables consist of various intercompany administrative expenses.

(c) For the year ended December 31, 2019, LIL Opco received contributions from Nalcor totaling $16.4 million (2018 - $12.0 million).

12. COMMITMENTS AND CONTINGENCIES

(a) On November 30, 2013, LIL Opco entered into the LIL Lease to rent the LIL assets from LIL LP until January 1, 2075. Under the terms of the agreement, LIL Opco assumes the responsibility for operating and maintaining the LIL and will make rent payments to LIL LP as consideration for the LIL LP renting, sub-letting, assigning or licensing as applicable, all assets and rights associated with the LIL. The rent payments will be sufficient to recover all costs associated with the LIL over the term of its service life. LIL Opco's obligation to make rent payments to LIL LP is absolute, unconditional and irrevocable until the initial financing obtained by LIL LP has been paid in full.

(b) In conjunction with the LIL Lease, LIL Opco also entered into the TFA with Hydro. The TFA payments will be sufficient for LIL Opco to recover all costs associated with rent payments under the LIL Lease, all costs associated with operating and maintenance incurred by LIL Opco and an administrative fee of $30 thousand per year. The purpose of the TFA is to ensure LIL Opco can meet its obligations under the LIL Lease. Hydro's obligation to make payments under the TFA is absolute, unconditional and irrevocable once the LIL is commissioned.

(c) LIL Opco has irrevocably, absolutely and unconditionally guaranteed the due and timely payment of all obligations of LIL LP in accordance with the LIL PFA, dated November 30, 2013. This guarantee is that of payment and not merely a guarantee of collection. LIL Opco has also granted first ranking liens on all its respective present and future assets other than excluded deposits and contributed surplus.

(d) LIL Opco 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 Opco'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.

13. CAPITAL MANAGEMENT

Capital includes share capital and shareholder contributions. LIL Opco's objectives when managing capital are to maintain its ability to continue as a going concern and ensure timely payment of its contractual obligations as it relates to the operations and maintenance of the LIL.