LABRADOR TRANSMISSION CORPORATION
FINANCIAL STATEMENTS
December 31, 2019

Deloitte.

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Independent Auditor's Report

To the Shareholder of Labrador Transmission Corporation

Opinion

We have audited the financial statements of Labrador Transmission Corporation (the "Company"), which comprise the statement of financial position as at December 31, 2019, and the statements of loss and comprehensive loss, 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 TRANSMISSION CORPORATION
STATEMENT OF FINANCIAL POSITION

As at December 31 (thousands of Canadian dollars)	Notes	**2019**	2018
ASSETS			
Current assets			
Restricted cash		**70,109**	59,683
Investments	8	**-**	35,692
Trade and other receivables	5	**177**	15,472
Prepayments		**472**	639
Total current assets		**70,758**	111,486
Non-current assets			
Property, plant and equipment	6	**977,572**	951,639
Intangible assets		**496**	486
Right-of-use assets	7	**229**	-
Long-term prepayments		**-**	437
Total assets		**1,049,055**	1,064,048
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	9	**5,852**	16,433
Current portion of long-term debt	10	**3,385**	-
Current portion of lease liabilities	11	**1**	-
Total current liabilities		**9,238**	**16,433**
Non-current liabilities			
Long-term debt	10	**753,463**	756,866
Lease liabilities	11	**232**	-
Total liabilities		**762,933**	**773,299**
Shareholder's equity			
Share capital	12	**1**	1
Shareholder contributions		**316,816**	305,367
Reserves		**(12,195)**	(12,848)
Deficit		**(18,500)**	(1,771)
Total equity		**286,122**	290,749
Total liabilities and equity		**1,049,055**	1,064,048

Commitments and contingencies (Note 18)

Subsequent event (Note 21)

See accompanying notes

On behalf of the Board:

DIRECTOR

DIRECTOR

LABRADOR TRANSMISSION CORPORATION
STATEMENT OF LOSS AND COMPREHENSIVE (LOSS) INCOME

For the year ended December 31 (thousands of Canadian dollars)	Notes	**2019**	2018
Operating costs	13	**4,110**	308
Net finance expense	14	**12,526**	-
Other expense	15	**93**	3
Loss for the year		**(16,729)**	(311)
Other comprehensive income			
Total items that may or have been reclassified to profit or loss:			
Reclassification adjustments related to:			
Cash flow hedges recognized in profit or loss		**653**	652
Other comprehensive income for the year		**653**	652
Total comprehensive (loss) income for the year		**(16,076)**	341

See accompanying notes

LABRADOR TRANSMISSION CORPORATION
STATEMENT OF CHANGES IN EQUITY

(thousands of Canadian dollars)	Notes	Share Capital	Shareholder Contributions	Reserves	Deficit	Total
Balance at January 1, 2019		**1**	**305,367**	**(12,848)**	**(1,771)**	**290,749**
Loss for the year		**-**	**-**	**-**	**(16,729)**	**(16,729)**
Other comprehensive income		**-**	**-**	**653**	**-**	**653**
Total comprehensive loss for the year		**-**	**-**	**653**	**(16,729)**	**(16,076)**
Shareholder contributions	**17**	**-**	**11,449**	**-**	**-**	**11,449**
Balance at December 31, 2019		**1**	**316,816**	**(12,195)**	**(18,500)**	**286,122**
Balance at January 1, 2018		1	287,548	(13,500)	(1,460)	272,589
Loss for the year		-	-	-	(311)	(311)
Other comprehensive income		-	-	652	-	652
Total comprehensive income for the year		-	-	652	(311)	341
Shareholder contributions	17	-	17,819	-	-	17,819
Balance at December 31, 2018		1	305,367	(12,848)	(1,771)	290,749

See accompanying notes

LABRADOR TRANSMISSION CORPORATION
STATEMENT OF CASH FLOWS

For the year ended December 31 (thousands of Canadian dollars)	Notes	**2019**	2018
Operating activities			
Loss for the year		**(16,729)**	(311)
Adjustments to reconcile loss to cash used in operating activities:			
Amortization of prepayments		**695**	386
Gain on disposal of property, plant and equipment		**(233)**	-
Reserves amortized to profit or loss		**653**	652
Finance income	14	**(1,571)**	(1,271)
Finance expense	14	**14,097**	1,271
		(3,088)	727
Increase in prepayments		**(91)**	(1,363)
Changes in non-cash working capital balances	20	**(25)**	16
Interest received		**1,551**	13,556
Interest paid		**(26,363)**	(30,461)
Net cash used in operating activities		**(28,016)**	(17,525)
Investing activities			
Additions to property, plant and equipment		**(13,633)**	(26,481)
Additions to intangible assets		**(27)**	(10)
Redemption of investments		**35,692**	134,772
Changes in non-cash working capital balances	20	**4,740**	(24,704)
Proceeds on disposal of property, plant and equipment		**233**	-
Net cash provided from investing activities		**27,005**	83,577
Financing activities			
Change in long-term debt		**-**	(89,049)
Repayment of lease liabilities		**(12)**	-
Change in restricted cash		**(10,426)**	5,178
Increase in shareholder contributions	17	**11,449**	17,819
Net cash provided from (used in) financing activities		**1,011**	(66,052)
Net increase (decrease) in cash		**-**	-
Cash, beginning of the year		**-**	-
Cash, end of the year		**-**	-

See accompanying notes

1. DESCRIPTION OF BUSINESS

Labrador Transmission Corporation (Labrador Transco or the Company) was incorporated on November 13, 2013 under the laws of Newfoundland and Labrador. Labrador Transco is a 100% owned subsidiary of Nalcor Energy (Nalcor). Labrador Transco's head office is located at 500 Columbus Drive, St. John's, Newfoundland and Labrador, A1B 0M6, Canada.

Labrador Transco was formed to design, construct, finance, operate and maintain the Labrador Transmission Assets (LTA), which includes two 315-kV High Voltage alternating current transmission lines connecting the Muskrat Falls hydroelectric facility, the Churchill Falls (Labrador) Corporation hydroelectric generating facility, the Labrador-Island Link (LIL) and certain other portions of the transmission system in Labrador.

Newfoundland and Labrador Hydro (Hydro), Muskrat Falls Corporation (Muskrat Falls), and Labrador Transco have entered into the Generator Interconnection Agreement (the GIA), which governs the development and operation of the LTA. Under the terms of the GIA, Labrador Transco will recover all costs associated with the LTA from Muskrat Falls, which in turn will recover all costs incurred under the GIA as part of a power purchase agreement (PPA) with Hydro.

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). Labrador Transco has adopted accounting policies which are based on IFRS applicable as at December 31, 2019, and include 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 Labrador Transco's Board of Directors on February 26, 2020.

2.2 Basis of Consolidation

The annual audited financial statements include only the financial statements of Labrador Transco.

Labrador Transco 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 Labrador Transco:

- 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 returns.

The Muskrat Falls/Labrador Transmission Assets Funding Trust (MF/LTA Funding Trust) was formed under the laws of the Province of Newfoundland and Labrador and the federal laws of Canada on November 4, 2013 for the purpose of issuing long-term debentures to the public, which are guaranteed by the federal Government of Canada, and to on-lend the proceeds to Muskrat Falls and Labrador Transco. The funds will be used for the sole purpose of constructing the Muskrat Falls hydroelectric facility and the LTA as part of Phase 1 of the Lower Churchill Project.

Based on the criteria outlined in IFRS 10, Labrador Transco has determined that it does not have control of the MF/LTA Funding Trust and as such has not included the accounts of the MF/LTA Funding Trust in these annual audited financial statements.

2.3 Restricted Cash

Restricted cash consists of cash held on deposit with a Schedule 1 Canadian Chartered Bank and administered by the Collateral Agent for the sole purpose of funding construction costs related to the LTA, including pre-funded equity amounts required under the MF/LTA Project Finance Agreement (MF/LTA PFA). The Company draws funds from this account on a monthly basis in accordance with procedures set out in the MF/LTA PFA.

2.4 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 Labrador Transco's accounting policy outlined in Note 2.6. Costs capitalized with the related asset include all those costs directly attributable to bringing the asset into operation.

When significant parts of property, plant and equipment are required to be replaced at intervals, Labrador Transco 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 each 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	4 - 5 years
Other assets	20 years

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

2.5 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 Labrador Transco begins recovering its costs for these assets over the term of the GIA/PPA. As use of the intangible assets are directly attributable to the construction of the LTA, related amortization costs are capitalized as incurred, until such time as the assets are substantially ready for their intended use or sale. 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.

2.6 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 Statement of Loss and Comprehensive (Loss) Income in the period in which they are incurred.

2.7 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, Labrador Transco 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 of disposal 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 and an impairment loss is recognized immediately in the Statement of Loss and Comprehensive (Loss) Income.

2.8 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.

2.9 Revenue Recognition

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

2.10 Leasing

Lessee Accounting

Labrador Transco assesses whether a contract is or contains a lease, at inception of a contract. Labrador Transco 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, Labrador Transco 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, Labrador Transco 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 rate method. Lease liabilities are re-measured, 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 Labrador Transco changes its assessment of whether purchase, renewal or termination options will be exercised.

Labrador Transco 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 Labrador Transco 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 Labrador Transco 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. Labrador Transco has elected to apply this practical expedient.

2.11 Foreign Currencies

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

2.12 Income Taxes

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

2.13 Financial Instruments

<u>Classification and Initial Measurement</u>

Financial assets and financial liabilities are recognized in the Statement of Financial Position when Labrador Transco 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 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.

<u>Financial Assets at Amortized Cost</u>

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.

Labrador Transco's financial assets at amortized cost include restricted cash, trade and other receivables and investments.

Financial Liabilities at Amortized Cost
Labrador Transco 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.

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

Derecognition of Financial Instruments
Labrador Transco 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.

Labrador Transco 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
Labrador Transco 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.

Labrador Transco always recognizes lifetime ECL for trade and other receivables. The ECL on these financial assets are estimated based on Labrador Transco'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. Labrador Transco 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 investments.

For all other financial instruments, Labrador Transco 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, Labrador Transco 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.

Hedges
Labrador Transco may choose to designate derivative instruments as hedges and apply hedge accounting if there is an economic relationship between the hedged item and the hedging instrument; the effect of credit risk does not dominate the value changes that result from that economic relationship; and the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that Labrador Transo actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. Labrador Transco formally documents all hedges and the related risk management objectives at the inception of the hedge. Derivative instruments that have been designated and qualify for hedge accounting are classified as either cash flow or fair value hedges.

The effective portion of the gain or loss on a cash flow hedging instrument is recognized directly in other comprehensive income, while any ineffective portion is recognized immediately in the Statement of Loss and Comprehensive (Loss) Income for the period in other expense. Amounts recognized in other comprehensive income are transferred to the Statement of Loss and Comprehensive (Loss) Income for the period when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs.

Labrador Transco does not hold any fair value hedges.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

3.1 Use of Judgment

i) Property, Plant and Equipment
Labrador Transco's accounting policy relating to property, plant and equipment is described in Note 2.4. 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 Labrador Transco'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, Labrador Transco 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, Labrador Transco assesses whether the contract involves the use of an identified asset, Labrador Transco has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use and Labrador Transco has the right to direct the use of the asset.

Lease extension and termination options

In determining the lease term, Labrador Transco 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

(i) Property, Plant and Equipment

Amounts recorded for depreciation are based on the useful lives of the Company'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 affect the amount of depreciation recorded.

(ii) Leases incremental borrowing rate

Labrador Transco 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 23 – Borrowing Costs (Amendments to IAS 23)[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 Labrador Transco 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.

Labrador Transco 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

Labrador Transco 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, Labrador Transco 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 Labrador Transco.

Impact on Lessee Accounting

Former operating leases
IFRS 16 changes how Labrador Transco 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), Labrador Transco:

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 Loss and Comprehensive (Loss) Income; 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), Labrador Transco 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 Loss and Comprehensive (Loss) Income.

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. Labrador Transco 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 Labrador Transco's financial statements.

Financial impact of the application of IFRS 16
On transition to IFRS 16, Labrador Transco 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 Labrador Transco'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 4.566%. The associated right-of-use assets were measured at the amount equal to the corresponding lease liabilities totaling $0.2 million.

(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	642
Total operating lease commitments	642
Discounted using the incremental borrowing rate of 4.566%	234
Lease liability recognized as at January 1, 2019	234

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

- accounting for operating leases with a remaining lease term of less than 12 months at January 1, 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- 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 Labrador Transco's annual audited 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 Labrador Transco's materiality judgments.

5. TRADE AND OTHER RECEIVABLES

As at December 31 (thousands of Canadian dollars)	**2019**	2018
Receivables due from related parties	**71**	15,293
Interest receivable	**71**	70
HST receivable	**35**	109
	177	15,472

6. PROPERTY, PLANT AND EQUIPMENT

(thousands of Canadian dollars)	Project Support Assets	Construction in Progress	Other	Total
Cost				
Balance at January 1, 2018	16,889	904,621	-	921,510
Additions	17	45,320	-	45,337
Balance at December 31, 2018	16,906	949,941	-	966,847
Additions	**16**	**26,864**	**267**	**27,147**
Disposals	**(5,435)**	**-**	**-**	**(5,435)**
Balance at December 31, 2019	**11,487**	**976,805**	**267**	**988,559**
Depreciation				
Balance at January 1, 2018	12,795	-	-	12,795
Depreciation	2,413	-	-	2,413
Balance at December 31, 2018	15,208	-	-	15,208
Depreciation	**1,214**	**-**	-	**1,214**
Disposals	**(5,435)**	**-**	-	**(5,435)**
Balance at December 31, 2019	**10,987**	**-**	**-**	**10,987**
Carrying value				
Balance at January 1, 2018	4,094	904,621	-	908,715
Balance at December 31, 2018	1,698	949,941	-	951,639
Balance at December 31, 2019	**500**	**976,805**	**267**	**977,572**

Capitalized Borrowing Costs

The construction of the LTA is being financed through the issuance of long-term debt and contributed capital. For the year ended December 31, 2019, $12.3 million (2018 - $16.4 million) of borrowing costs were capitalized.

7. RIGHT-OF-USE ASSETS

Labrador Transco has leases for easements which have a fixed period between 50-60 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 Labrador Transco. 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 Labrador Transco and not by the respective lessor.

(thousands of Canadian dollars)	Property
Cost	
Balance at January 1, 2019	234
Balance at December 31, 2019	**234**
Depreciation	
Balance at January 1, 2019	
Depreciation and depletion	5
Balance at December 31, 2019	**5**
Carrying value	
Balance at January 1, 2019	234
Balance at December 31, 2019	**229**

8. INVESTMENTS

As at December 31 (thousands of Canadian dollars)	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	-	15,750
$483.8 million Amortizing Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.20%.	2019	-	7,977
$725.7 million Amortizing Fixed Rate Deposit Note, with interest paid at a rate of 1.679% per annum.	2019	-	11,965
Total investments, end of the year		-	35,692

9. TRADE AND OTHER PAYABLES

As at December 31 (thousands of Canadian dollars)	**2019**	2018
Accrued interest	**2,983**	2,983
Payables due to related parties	**2,042**	240
Trade payables	**827**	13,210
	5,852	16,433

10. LONG-TERM DEBT

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

As at (thousands of Canadian dollars)	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	**2019**	2018
Tranche A	110,500	3.63	2013	2029	**110,524**	110,527
Tranche B	114,750	3.83	2013	2037	**114,764**	114,764
Tranche C	216,750	3.86	2013	2048	**216,786**	216,787
Tranche 1-10	34,810	1.14-1.75	2017	2020-2025	**34,815**	34,816
Tranche 11-20	38,128	1.84-2.37	2017	2025-2030	**38,137**	38,138
Tranche 21-30	42,941	2.41-2.64	2017	2030-2035	**42,961**	42,963
Tranche 31-40	48,991	2.66-2.80	2017	2035-2040	**49,039**	49,042
Tranche 41-50	56,276	2.81-2.86	2017	2040-2045	**56,333**	56,335
Tranche 51-60	64,784	2.84-2.86	2017	2045-2050	**64,868**	64,871
Tranche 61-64	28,570	2.85	2017	2050-2052	**28,621**	28,623
Total	756,500				**756,848**	756,866
Less: maturities of debt within one year					**(3,385)**	-
					753,463	756,866

On November 29, 2013, Labrador Transco entered into the MF/LTA PFA with the MF/LTA Funding Trust, Muskrat Falls and the Collateral Agent. Under the terms and conditions of the MF/LTA PFA, the MF/LTA Funding Trust agreed to provide a credit facility in the amount of $2.6 billion available in three tranches (Tranches A, B and C). On December 13, 2013, all three tranches of the construction facility were drawn down by way of a single advance of $2.6 billion to an account administered by a Collateral Agent. On May 10, 2017, Labrador Transco entered into a second amendment to the MF/LTA PFA. Under the terms and conditions of the second amended MF/LTA PFA, the MF/LTA Funding Trust agreed to provide an additional credit facility in the amount of $1.85 billion available in 64 series bonds with maturities of every six months beginning in December 2020. On May 25, 2017, the second construction facility was fully drawn down by way of a single advance to an account administered by a Collateral Agent. The Company draws funds from this account on a monthly basis in accordance with procedures set out in the MF/LTA PFA. As of December 31, 2019, the $2.6 billion construction facility was fully utilized by Labrador Transco and Muskrat Falls (2018 - $2.6 billion) and $0.2 billion of the second construction facility was utilized by Labrador Transco and Muskrat Falls (2018 - $0.2 billion).

The role of the Collateral Agent is to act on behalf of the lending parties, including the MF/LTA 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 MF/LTA Funding Trust is to issue long-term debentures to the public and to on-lend the proceeds to Muskrat Falls and Labrador Transco. Muskrat Falls and Labrador Transco are both jointly and severally liable for the full amount of the credit facility. Labrador Transco's portion of the ratable share is based on its cumulative portion of actual debt drawn for the construction of the LTA. As of December 31, 2019, Labrador Transco's cumulative portion of actual debt drawn was 17% (2018 - 17%).

The financing of the MF/LTA 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, Labrador Transco agreed to pay an annual guarantee fee starting in May 2018 equal to its ratable share of 0.5% of the average balance outstanding on Tranches 1 through 64 for the prior twelve months.

As security for these debt obligations, Labrador Transco 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 instalments due for the next five years are as follows:

(thousands of Canadian dollars)	2020	2021	2022	2023	2024
Sinking fund instalments	6,139	12,278	12,278	12,278	12,278

11. LEASE LIABILITIES

(thousands of Canadian dollars)	**2019**
Maturity analysis - contractual undiscounted cash flows	
Less than one year	12
One to five years	47
More than five years	571
Total undiscounted lease liabilities as at December 31, 2019	**630**
Lease liabilities included in the Statement of Financial Position	
Current lease liabilities	1
Non-current lease liabilities	232
Total lease liabilities as at December 31, 2019	**233**

12. 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

13. OPERATING COSTS

For the year ended December 31 (thousands of Canadian dollars)	**2019**	2018
Salaries and benefits	**1,861**	113
Professional services	**994**	37
Maintenance and materials	**581**	-
Cost recoveries and other	**249**	19
Travel and transportation	**231**	-
Training	**194**	114
Donations and community involvement	**-**	26
	4,110	308

As of July 1, 2019, substantially all construction and testing activities related to the LTA were complete. As a result significant project costs are no longer eligible for capitalization.

14. NET FINANCE EXPENSE

For the year ended December 31 (thousands of Canadian dollars)	**2019**	2018
Finance income		
Interest on investments	**100**	759
Other interest income	**1,471**	512
	1,571	1,271
Finance expense		
Interest and fees on long-term debt	**26,361**	17,694
Bank fees and other interest expense	**14**	2
	26,375	17,696
Interest capitalized during construction	**(12,278)**	(16,425)
	14,097	1,271
Net finance expense	**12,526**	-

As of July 1, 2019, substantially all construction and testing activities related to the LTA were complete. As a result borrowing costs are no longer eligible for capitalization.

15. OTHER EXPENSE

For the year ended December 31 (thousands of Canadian dollars)	**2019**	2018
Cash flow hedge amortization	**326**	-
Gain on disposal of property, plant and equipment	**(233)**	-
Realized foreign exchange loss	**-**	3
Other expense	**93**	3

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

16.1 Financial Instruments

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 Labrador Transco might receive or incur in actual market transactions.

As a significant number of Labrador Transco'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 Labrador Transco 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 3 instruments.

	Level	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
(thousands of Canadian dollars)		**December 31, 2019**		December 31, 2018	
Financial assets					
Investments	**2**	**-**	**-**	35,692	35,681
Financial liabilities					
Long-term debt including amount due within one year	**2**	**756,848**	**876,329**	756,866	812,291

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

16.2 Risk Management

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

Credit Risk

The Company's expected future cash flows are exposed to credit risk through financing activities, based on the risk of non-performance by counterparties to its financial instruments. Credit risk on restricted cash and investments is minimal, as the Company's deposits and investments are held by Canadian Schedule 1 Chartered Banks with ratings of 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 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 on hand and shareholder contributions. The Company can access the funds drawn down from the Muskrat/LTA Construction Facility and shareholder contributions for the payment of construction costs as well as interest payments.

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

(thousands of Canadian dollars)	<1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	5,852	-	-	-	5,852
Long-term debt (including interest and sinking fund)	34,308	87,622	87,627	1,065,558	1,275,115
	40,160	87,622	87,627	1,065,558	1,280,967

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.

In May 2017, Labrador Transco entered into three bond forward contracts, jointly with Muskrat Falls, to hedge the interest rate risk on the forecasted issue of the additional long-term debt. Labrador Transco's prorated share of these contracts was $0.4 billion. These contracts were designated as part of a cash flow hedging relationship and the resulting change in fair value of $13.9 million was recorded in other comprehensive income with the ineffective portion of $0.2 million recognized immediately in other expense. The amortization of the other comprehensive income related to the effective portion of the cash flow hedge is capitalized in line with treatment of the interest expense related to the long-term debt that it is hedging, until the LTA is ready for its intended use. At that point, amortization on the remainder of the effective portion will be recognized in profit or loss over the same period as the related debt instruments mature. The total amount amortized in 2019 was $0.7 million (2018 - $0.7 million).

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.

17. RELATED PARTY TRANSACTIONS

Labrador Transco 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 Labrador Transco transacts are as follows:

Related Party	Relationship
Nalcor	100% shareholder of Labrador Transco
Hydro	Wholly-owned subsidiary of Nalcor
Muskrat Falls	Wholly-owned subsidiary of Nalcor
Lower Churchill Management Corporation (LCMC)	Wholly-owned subsidiary of Nalcor
Labrador-Island Link Limited Partnership (LIL LP)	Limited partnership between Labrador-Island Link Holding Corporation and Emera Newfoundland and Labrador Island Link Inc.
Churchill Falls (Labrador) Corporation Limited (Churchill Falls)	65.8% owned Joint arrangement of Hydro

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

(a) As at December 31, 2019, Labrador Transco has related party payables totaling $2.0 million (2018 - $0.2 million) with Nalcor and LCMC and related party receivables totaling $71 thousand (2018 - $15.3 million) with Muskrat Falls and LIL LP. These payables/receivables consist of various intercompany operating and construction costs.

(b) During 2019, Labrador Transco has received contributions from Nalcor totaling $11.4 million (2018 - $17.8 million).

(c) During 2019, Labarador Transco recorded a gain on disposal for an asset sold to Churchill Falls in the amount of $0.2 million (2018 - $nil).

18. COMMITMENTS AND CONTINGENCIES

(a) Labrador Transco has entered into the GIA with Muskrat Falls and Hydro, for an expected term of 55 years, whereby Labrador Transco has committed to design, construct, operate and maintain the LTA, and provides such other services as agreed to ensure safe and reliable transmission of electricity. During 2018 Labrador Transco also entered into the Interim Transmission Funding Agreement with Hydro, whereby Labrador Transco will operate and maintain the LTA during the pre-full commissioning interim use period and provide such services as agreed to ensure safe and reliable transmission of electricity.

(b) As part of the MF/LTA Project Finance Agreement (MF/LTA PFA), Labrador Transco has pledged its present and future assets as security to the Collateral Agent.

(c) Labrador Transco 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 Labrador Transco'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.

(d) Outstanding commitments for capital projects total approximately $1.3 million as at December 31, 2019 (2018 - $1.7 million). Pre-funded equity requirements associated with the MF/LTA PFA are $nil as at December 31, 2019 (2018 - $9.4 million). Pre-funded equity is used to fund capital and borrowing costs.

19. CAPITAL MANAGEMENT

Capital includes share capital, shareholder contributions and long-term debt. The Company's objectives for managing capital are to maintain its ability to continue as a going concern and to ensure timely payment of its contractual obligations as they relate to the construction of the LTA. The Province of Newfoundland and Labrador, has provided guarantees of equity support in relation to the construction of the LTA. These guarantees, together with the proceeds from long-term debt will ensure sufficient funds are available to finance construction.

20. SUPPLEMENTARY CASH FLOW INFORMATION

For the year ended December 31 (thousands of Canadian dollars)	**2019**	2018
Trade and other receivables	**15,296**	(9,677)
Prepayments	**-**	173
Trade and other payables	**(10,581)**	(15,184)
Changes in non-cash working capital balances	**4,715**	(24,688)
Related to:		
Operating activities	**(25)**	16
Investing activities	**4,740**	(24,704)
	4,715	(24,688)

21. 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 change to the Muskrat Falls/Labrador Transmission Assets revenue model and the 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. As further information regarding the financial restructure becomes known, management will continue to assess the associated financial reporting impacts.