MUSKRAT FALLS CORPORATION
FINANCIAL STATEMENTS
December 31, 2019

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Independent Auditor's Report

To the Shareholder of Muskrat Falls Corporation

Opinion

We have audited the financial statements of Muskrat Falls Corporation (the "Company"), which comprise the statement of financial position as at December 31, 2019, and the statements of loss 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

MUSKRAT FALLS CORPORATION
STATEMENT OF FINANCIAL POSITION

As at December 31 (thousands of Canadian dollars)	Notes	**2019**	2018
ASSETS			
Current assets			
Restricted cash		**860,244**	830,602
Investments	7	**-**	156,615
Current portion of advances	8	**24,347**	24,208
Trade and other receivables	5	**9,241**	213,615
Prepayments		**5,128**	7,335
Total current assets		**898,960**	1,232,375
Non-current assets			
Property, plant and equipment	6	**5,657,169**	5,004,559
Intangible assets		**208**	287
Advances	8	**-**	895
Long-term prepayments		**-**	4,939
Total assets		**6,556,337**	6,243,055
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	9	**156,801**	214,706
Current portion of long-term debt	10	**16,526**	-
Total current liabilities		**173,327**	214,706
Non-current liabilities			
Long-term debt	10	**3,678,672**	3,695,289
Total liabilities		**3,851,999**	3,909,995
Shareholder's equity			
Share capital	11	**1**	1
Shareholder contributions		**2,767,901**	2,398,423
Reserves		**(54,257)**	(57,326)
Deficit		**(9,307)**	(8,038)
Total equity		**2,704,338**	2,333,060
Total liabilities and equity		**6,556,337**	6,243,055

Commitments and contingencies (Note 17)
Subsequent event (Note 20)

See accompanying notes

On behalf of the Board:

DIRECTOR

DIRECTOR

MUSKRAT FALLS CORPORATION
STATEMENT OF LOSS AND COMPREHENSIVE INCOME

For the year ended December 31 (thousands of Canadian dollars)	Notes	**2019**	2018
Operating costs	12	**1,273**	1,421
Other (income) expense	14	**(4)**	116
Loss for the year		**(1,269)**	(1,537)
Other comprehensive income			
Total items that may or have been reclassified to profit or loss:			
Reclassification adjustment related to:			
Cash flow hedges recognized in profit or loss		**3,069**	3,069
Other comprehensive income for the year		**3,069**	3,069
Total comprehensive income for the year		**1,800**	1,532

See accompanying notes

MUSKRAT FALLS CORPORATION
STATEMENT OF CHANGES IN EQUITY

(thousands of Canadian dollars)	Notes	Share Capital	Shareholder Contributions	Reserves	Deficit	Total
Balance at January 1, 2019		**1**	**2,398,423**	**(57,326)**	**(8,038)**	**2,333,060**
Loss for the year		**-**	**-**	**-**	**(1,269)**	**(1,269)**
Other comprehensive income		**-**	**-**	**3,069**	**-**	**3,069**
Total comprehensive income for the year		**-**	**-**	**3,069**	**(1,269)**	**1,800**
Shareholder contributions	**16**	**-**	**369,478**	**-**	**-**	**369,478**
Balance at December 31, 2019		**1**	**2,767,901**	**(54,257)**	**(9,307)**	**2,704,338**
Balance at January 1, 2018		1	1,964,050	(60,395)	(6,501)	1,897,155
Loss for the year		-	-	-	(1,537)	(1,537)
Other comprehensive income		-	-	3,069	-	3,069
Total comprehensive income for the year		-	-	3,069	(1,537)	1,532
Shareholder contributions	16	-	434,373	-	-	434,373
Balance at December 31, 2018		1	2,398,423	(57,326)	(8,038)	2,333,060

See accompanying notes

MUSKRAT FALLS CORPORATION
STATEMENT OF CASH FLOWS

For the year ended December 31 (thousands of Canadian dollars)	Notes	**2019**	2018
Operating activities			
Loss for the year		**(1,269)**	(1,537)
Adjustments to reconcile loss to cash used in operating activities:			
Amortization of prepayments		**7,641**	4,339
Reserves amortized to profit or loss		**3,069**	3,069
Finance income	13	**(16,944)**	(19,042)
Finance expense	13	**16,944**	19,042
		9,441	5,871
Increase in prepayments		**(495)**	(16,175)
Changes in non-cash working capital balances	19	**(58)**	33
Interest received		**17,061**	18,727
Interest paid		**(128,711)**	(136,836)
Net cash used in operating activities		**(102,762)**	(128,380)
Investing activities			
Additions to property, plant and equipment		**(540,404)**	(590,297)
Additions to intangible assets		**(361)**	(576)
Change in advances		**756**	51,041
Redemption of investments		**156,615**	570,101
Changes in non-cash working capital balances	19	**146,320**	(146,698)
Net cash used in investing activities		**(237,074)**	(116,429)
Financing activities			
Change in long-term debt		**-**	89,048
Change in restricted cash		**(29,642)**	(278,612)
Increase in shareholder contributions	16	**369,478**	434,373
Net cash provided from financing activities		**339,836**	244,809
Net increase (decrease) in cash		**-**	-
Cash, beginning of the year		**-**	-
Cash, end of the year		**-**	-

See accompanying notes

1. DESCRIPTION OF BUSINESS

Muskrat Falls Corporation (Muskrat Falls or the Company) was incorporated on November 13, 2013 under the laws of Newfoundland and Labrador. Muskrat Falls is a 100% owned subsidiary of Nalcor Energy (Nalcor). Muskrat Falls' head office is located at 500 Columbus Drive, St. John's, Newfoundland and Labrador, A1B 0M4, Canada.

Muskrat Falls was formed to design, develop, construct, finance and operate the Muskrat Falls hydroelectric facility rated at 824 megawatts.

Muskrat Falls has entered into a power purchase agreement (PPA) with Newfoundland and Labrador Hydro (Hydro) for the sale of energy and capacity from the Muskrat Falls hydroelectric facility. Muskrat Falls has also entered into the Generator Interconnection Agreement (GIA) with Hydro and Labrador Transmission Corporation (Labrador Transco) which governs the development and operation of the Labrador Transmission Assets connecting the Muskrat Falls facility to the existing hydroelectric facility in Churchill Falls. Under the terms of the GIA, Muskrat Falls is required to pay for all costs associated with the Labrador Transmission Assets. Under the terms of the PPA, Muskrat Falls will recover all costs associated with the Muskrat Falls hydroelectric facility as well as the costs incurred by Muskrat Falls under the GIA. Hydro's obligation to pay for the costs under the PPA is absolute, non-conditional and irrevocable.

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). Muskrat Falls 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 Muskrat Falls' Board of Directors on February 26, 2020.

2.2 Basis of Consolidation

The annual audited financial statements include only the financial statements of Muskrat Falls.

Muskrat Falls 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 Muskrat Falls:

- 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 Labrador Transmission Assets as part of Phase 1 of the Lower Churchill Project.

Based on the criteria outlined in IFRS 10, Muskrat Falls 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 Muskrat Falls hydroelectric facility, 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. Restricted cash also includes funds held in trust by solicitors of the Company.

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 Muskrat Falls' accounting policy outlined in Note 2.6. Costs capitalized with the related asset include all costs directly attributable to bringing the asset into operation.

When significant parts of property, plant and equipment are required to be replaced at intervals, Muskrat Falls 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 6 - 7 years

As use of the project support assets is directly attributable to the construction of the Muskrat Falls hydroelectric facility, 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, 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. Amortization is recognized on a straight-line basis over their estimated useful lives of one year. As use of the intangible assets is directly attributable to the construction of the Muskrat Falls hydroelectric facility, 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 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, Muskrat Falls 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 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

Muskrat Falls assesses whether a contract is or contains a lease, at inception of a contract. Muskrat Falls 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, Muskrat Falls would normally recognize the lease payment as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. However, as Muskrat Falls is still in the construction phase of its operations, lease payments are subsequently capitalized within property, plant and equipment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, Muskrat Falls 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 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 Muskrat Falls changes its assessment of whether purchase, renewal or termination options will be exercised.

Muskrat Falls 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 Muskrat Falls 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 transfer's ownership of the underlying asset or the cost of the right-of-use asset reflects that Muskrat Falls expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of the lease.

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

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

2.11 Foreign Currencies

Transactions in currencies other than Muskrat Falls' 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 Income as other (income) 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 Muskrat Falls 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.

Muskrat Falls' financial assets at amortized cost include restricted cash, trade and other receivables, investments and advances.

Financial Liabilities at Amortized Cost
Muskrat Falls 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.

Muskrat Falls' financial liabilities at amortized cost include trade and other payables and long-term debt.

Derecognition of Financial Instruments
Muskrat Falls 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.

Muskrat Falls 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
Muskrat Falls 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.

Muskrat Falls always recognizes lifetime ECL for trade and other receivables. The ECL on these financial assets are estimated based on Muskrat Falls' 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. Muskrat Falls 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, investments and advances.

For all other financial instruments, Muskrat Falls 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, Muskrat Falls 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
Muskrat Falls 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 Muskrat Falls actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. Muskrat Falls 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 Income for the period in other (income) expense. Amounts recognized in other comprehensive income are transferred to the Statement of Loss and Comprehensive 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.

Muskrat Falls 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) 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.

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

(iii) Leases
Definition of a lease
At inception of a contract, Muskrat Falls 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, Muskrat Falls assesses whether the contract involves the use of an identified asset, Muskrat Falls has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use and Muskrat Falls has the right to direct the use of the asset.

Lease extension and termination options
In determining the lease term, Muskrat Falls 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

Muskrat Falls 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 Muskrat Falls 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.

Muskrat Falls 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

Muskrat Falls 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, Muskrat Falls 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 Muskrat Falls.

Impact on Lessee Accounting

Former operating leases

IFRS 16 changes how Muskrat Falls 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), Muskrat Falls:

i) recognizes right-of-use assets and lease liabilities in the Statement of Financial Position, initially measured at the present value of future lease payments;
ii) capitalizes depreciation of right-of-use assets and interest on lease liabilities as use of these assets is directly attributable to the construction of the Muskrat Falls hydroelectric facility; and
iii) 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), Muskrat Falls would normally opt to recognize a lease expense on a straight-line basis as permitted by IFRS 16. However, as Muskrat Falls is still in the construction phase of its operations, Muskrat Falls has capitalized the lease payments within property, plant and equipment.

Former finance leases

The main difference between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of residual value guarantees provided by a lessee to a lessor. Muskrat Falls 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 Muskrat Falls' financial statements.

Financial impact of the application of IFRS 16

The adoption of IFRS 16 had no impact on Muskrat Falls' financial statements.

In applying IFRS 16, Muskrat Falls 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 Muskrat Falls' 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 Muskrat Falls' materiality judgments.

5. TRADE AND OTHER RECEIVABLES

As at December 31 (thousands of Canadian dollars)	**2019**	2018
HST receivable	**6,644**	18,718
Receivable due from related parties	**2,280**	3,512
Interest receivable	**317**	524
Letters of credit	**-**	184,111
Insurance receivable	**-**	6,750
	9,241	213,615

6. PROPERTY, PLANT AND EQUIPMENT

(thousands of Canadian dollars)	Project Support Assets	Construction in Progress	Total
Cost			
Balance at January 1, 2018	193,662	4,238,921	4,432,583
Additions	8	732,476	732,484
Other adjustments	(2)	-	(2)
Balance at December 31, 2018	193,668	4,971,397	5,165,065
Additions	**-**	**676,018**	**676,018**
Other adjustments	**(2)**	**-**	**(2)**
Balance at December 31, 2019	**193,666**	**5,647,415**	**5,841,081**
Depreciation			
Balance at January 1, 2018	137,099	-	137,099
Depreciation	23,407	-	23,407
Balance at December 31, 2018	160,506	-	160,506
Depreciation	**23,406**	**-**	**23,406**
Balance at December 31, 2019	**183,912**	**-**	**183,912**
Carrying value			
Balance at January 1, 2018	56,563	4,238,921	4,295,484
Balance at December 31, 2018	33,162	4,971,397	5,004,559
Balance at December 31, 2019	**9,754**	**5,647,415**	**5,657,169**

Capitalized Borrowing Costs

The construction of the Muskrat Falls hydroelectric facility is being financed through the issuance of long-term debt and contributed capital. For the year ended December 31, 2019, $111.8 million (2018 - $118.3 million) of borrowing costs were capitalized.

7. 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	**-**	59,250
$483.8 million Amortizing Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.20%.	2019	**-**	38,946
$725.7 million Amortizing Fixed Rate Deposit Note, with interest paid at a rate of 1.679% per annum.	2019	**-**	58,419
Total investments, end of the year		**-**	156,615

8. ADVANCES

Advances consist of deposits paid to contractors on long-term construction contracts in relation to the Muskrat Falls hydroelectric facility. Advances related to construction contracts are secured by letters of credit from Canadian Schedule 1 Chartered banks.

As at December 31 (thousands of Canadian dollars)	**2019**	2018
Total advances	**24,347**	25,103
Less: current portion	**24,347**	24,208
Total long-term advances	**-**	895

9. TRADE AND OTHER PAYABLES

As at December 31 (thousands of Canadian dollars)	**2019**	2018
Trade payables	**133,799**	172,534
Accrued interest	**14,563**	14,563
Payables due to related parties	**8,409**	27,571
HST payable	**30**	38
	156,801	214,706

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	539,500	3.63	2013	2029	**539,618**	539,631
Tranche B	560,250	3.83	2013	2037	**560,317**	560,320
Tranche C	1,058,250	3.86	2013	2048	**1,058,425**	1,058,432
Tranche 1-10	169,953	1.14-1.75	2017	2020-2025	**169,977**	169,985
Tranche 11-20	186,155	1.84-2.37	2017	2025-2030	**186,199**	186,205
Tranche 21-30	209,654	2.41-2.64	2017	2030-2035	**209,751**	209,758
Tranche 31-40	239,194	2.66-2.80	2017	2035-2040	**239,426**	239,439
Tranche 41-50	274,761	2.81-2.86	2017	2040-2045	**275,037**	275,049
Tranche 51-60	316,299	2.84-2.86	2017	2045-2050	**316,711**	316,725
Tranche 61-64	139,484	2.85	2017	2050-2052	**139,737**	139,745
Total	3,693,500				**3,695,198**	3,695,289
Less: maturities of debt within one year					**(16,526)**	-
					3,678,672	3,695,289

On November 29, 2013, Muskrat Falls entered into the MF/LTA PFA with the MF/LTA Funding Trust, Labrador Transco 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 to an account administered by a Collateral Agent. On May 10, 2017, Muskrat Falls 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 Muskrat Falls and Labrador Transco (2018 - $2.6 billion) and $1.7 billion of the second construction facility was utilized by Muskrat Falls and Labrador Transco (2018 - $1.4 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. Muskrat Falls' portion of the ratable share is based on its cumulative portion of actual debt drawn for the construction of the Muskrat Falls hydroelectric facility. As of December 31, 2019, Muskrat Falls' cumulative portion of actual debt drawn was 83% (2018 – 83%).

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, Muskrat Falls agreed to pay an annual 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, Muskrat Falls 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	29,972	59,944	59,944	59,944	59,944

11. 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

12. OPERATING COSTS

For the year ended December 31 (thousands of Canadian dollars)	**2019**	2018
Salaries and benefits	**982**	683
Cost recoveries and other	**191**	342
Professional services	**119**	163
Donations and community involvement	**6**	38
Training	**(25)**	195
	1,273	1,421

13. NET FINANCE EXPENSE

For the year ended December 31 (thousands of Canadian dollars)	**2019**	2018
Finance income		
Interest on investments	**486**	9,937
Other interest income	**16,458**	9,105
	16,944	19,042
Finance expense		
Interest and fees on long-term debt	**128,702**	137,362
Bank fees	**9**	9
	128,711	137,371
Interest capitalized during construction	**(111,767)**	(118,329)
	16,944	19,042
Net finance expense	**-**	-

14. OTHER (INCOME) EXPENSE

For the year ended December 31 (thousands of Canadian dollars)	**2019**	2018
Realized foreign exchange (gain) loss	**(3)**	113
Unrealized foreign exchange (gain) loss	**(1)**	3
Other (income) expense	**(4)**	116

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

15.1 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 Muskrat Falls might receive or incur in actual market transactions.

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

<u>Establishing Fair Value</u>
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**	**-**	**-**	156,615	156,560
Financial liabilities					
Long-term debt including amount due within one year	**2**	**3,695,198**	**4,278,547**	3,695,289	3,965,890

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 value of advances approximate their carrying value due to the contractual terms of the instruments.

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.

15.2 Risk Management

The Company is exposed to certain credit, liquidity and market 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, including derivative liabilities relating to hedging activities. 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	156,801	-	-	-	156,801
Long-term debt (including interest and sinking fund)	167,502	427,804	427,825	5,202,431	6,225,562
	324,303	427,804	427,825	5,202,431	6,382,363

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, Muskrat Falls entered into three bond forward contracts, jointly with Labrador Transco, to hedge the interest rate risk on the forecasted issue of the additional long-term debt. Muskrat Falls' prorated share of these contracts was $1.4 billion. These contracts were designated as part of a cash flow hedging relationship and the resulting change in fair value of $52.0 million was recorded in other comprehensive income (loss) with the ineffective portion of $0.9 million recognized immediately in other (income) expense. The amortization of the other comprehensive loss 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 Muskrat Falls hydroelectric facility 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 including the previous cash flow hedge initiated in December 2013 was $3.1 million (2018 - $3.1 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 and Euro 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.

16. RELATED PARTY TRANSACTIONS

Muskrat Falls 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 Muskrat Falls transacts are as follows:

Related Party	Relationship
Nalcor	100% shareholder of Muskrat Falls
Hydro	Wholly-owned subsidiary of Nalcor
Labrador Transco	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.

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

(a) As at December 31, 2019, Muskrat Falls has related party payables totaling $8.4 million (2018 - $27.6 million) with LCMC and Labrador Transco and related party receivables totaling $2.3 million (2018 - $3.5 million) with Nalcor, Hydro and LIL LP. These payables/receivables consist of various intercompany operating and construction costs.

(b) For the year ended December 31, 2019, Muskrat Falls has received contributions from Nalcor totaling $369.5 million (2018 - $434.4 million).

17. COMMITMENTS AND CONTINGENCIES

(a) Muskrat Falls has entered into the GIA and PPA with Labrador Transco and Hydro, for an expected term of 55 years, whereby Muskrat Falls has committed to design, construct, operate and maintain the Muskrat Falls hydroelectric facility, and provide such other services as agreed to ensure safe and reliable transmission of electricity.

(b) As part of the MF/LTA PFA, Muskrat Falls has pledged its present and future assets as security to the Collateral Agent.

(c) In July 2012 Nalcor entered into the Energy and Capacity Agreement with Emera Inc. (Emera) providing for the sale and delivery of the Nova Scotia Block, being 0.986 TWh of energy annually for a term of 35 years and Supplemental Energy over the initial five years of the term. In October 2015 Nalcor assigned this agreement to Muskrat Falls. As a result of this assignment, Nalcor and Muskrat Falls are jointly liable for the delivery of the Nova Scotia Block to Emera.

(d) Muskrat Falls 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 Muskrat Falls' 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. Muskrat Falls possesses certain securities that protect it against financial liability associated with liens and claims made by subcontractors and suppliers.

(e) Outstanding commitments for capital projects total approximately $75.2 million as at December 31, 2019 (2018 - $227.8 million). Pre-funded equity requirements associated with the MF/LTA PFA are $nil as at December 31, 2019 (2018 - $418.8 million). Pre-funded equity is used to fund capital and borrowing costs.

18. 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 Muskrat Falls hydroelectric facility. Muskrat Falls' future requirements for capital are expected to increase commensurate with progress on the construction. During this time, it is expected that proceeds from the Muskrat/LTA Construction Facility and shareholder contributions will be sufficient to fund the development of the Muskrat Falls hydroelectric facility. The Province of Newfoundland and Labrador, has provided guarantees of equity support in relation to the construction of the Muskrat Falls hydroelectric facility. These guarantees, together with the proceeds from long-term debt, will ensure sufficient funds are available to finance construction.

19. SUPPLEMENTARY CASH FLOW INFORMATION

For the year ended December 31 (thousands of Canadian dollars)	**2019**	2018
Trade and other receivables	**204,167**	(174,900)
Prepayments	**-**	1,376
Trade and other payables	**(57,905)**	26,859
Changes in non-cash working capital balances	**146,262**	(146,665)
Related to:		
Operating activities	**(58)**	33
Investing activities	**146,320**	(146,698)
	146,262	(146,665)

20. 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.