LOWER CHURCHILL PROJECT COMPANIES
COMBINED FINANCIAL STATEMENTS
December 31, 2018

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Independent Auditor's Report

To the Directors of Nalcor Energy

We have audited the accompanying combined financial statements of the Lower Churchill Project Companies, which comprise the combined statement of financial position as at December 31, 2018 and the combined statements of profit and comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The combined financial statements have been prepared by management of the Lower Churchill Project Companies based on the financial reporting provisions of the Government of Newfoundland and Labrador Muskrat Falls Oversight Committee.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with the financial reporting provisions of the Government of Newfoundland and Labrador Muskrat Falls Oversight Committee.

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.

Emphasis of Matter

We draw attention to Note 2 to the financial statements, which describes the basis of accounting. The combined financial statements are prepared to assist Nalcor Energy to comply with the financial reporting provisions of the Government of Newfoundland and Labrador Muskrat Falls Oversight Committee. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

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 the financial reporting provisions of the Government of Newfoundland and Labrador Muskrat Falls Oversight Committee, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

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

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

Deloitte LLP

Chartered Professional Accountants
March 15, 2019

LOWER CHURCHILL PROJECT COMPANIES
COMBINED STATEMENT OF FINANCIAL POSITION

As at December 31 (thousands of Canadian dollars)	Notes	**2018**	2017
ASSETS			
Current assets			
Cash		**5,567**	4,031
Restricted cash		**1,421,590**	1,036,521
Current portion of long-term investments	8	**297,830**	1,037,684
Trade and other receivables	5	**220,742**	105,057
Current portion of advances	9	**25,028**	77,583
Prepayments		**10,597**	4,022
Total current assets		**1,981,354**	2,264,898
Non-current assets			
Property, plant and equipment	6	**10,036,356**	8,939,334
Intangible assets	7	**35,249**	33,537
Long-term investments	8	**-**	297,830
Advances	9	**895**	-
Long-term prepayments		**7,159**	574
Total assets		**12,061,013**	11,536,173
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	10	**295,162**	357,831
Non-current liabilities			
Long-term debt	11	**7,903,983**	7,904,168
Deferred revenue	13	**36,500**	24,900
Class B limited partnership units	14	**533,058**	491,298
Contributions		**10**	10
Total liabilities		**8,768,713**	8,778,207
Shareholder's equity			
Share capital	15	**4**	4
Shareholder contributions	15	**3,369,035**	2,839,620
Reserves	12	**(70,174)**	(73,895)
Deficit		**(6,565)**	(7,763)
Total equity		**3,292,300**	2,757,966
Total liabilities and equity		**12,061,013**	11,536,173

Commitments and contingencies (Note 22)

See accompanying notes

On behalf of the Board:

DIRECTOR

DIRECTOR

LOWER CHURCHILL PROJECT COMPANIES
COMBINED STATEMENT OF PROFIT (LOSS) AND COMPREHENSIVE INCOME (LOSS)

For the year ended December 31 (thousands of Canadian dollars)	Notes	**2018**	2017
Other revenue	21	**390**	420
Net finance income	16	**4,130**	2,072
Revenue		**4,520**	2,492
Operating costs	17	**3,124**	3,223
Other expense	18	**188**	836
Expenses		**3,312**	4,059
Profit (loss) for the year		**1,208**	(1,567)
Distribution of income	19	**(10)**	(10)
Other comprehensive income (loss) for the year			
Cash flow hedges			
Net fair value losses on cash flow hedges	12	**-**	(65,840)
Reclassification adjustments for amounts recognized in profit or loss	12	**3,721**	1,752
Total items that may or have been reclassified to profit or loss		**3,721**	(64,088)
Total comprehensive income (loss) for the year		**4,919**	(65,665)

See accompanying notes

LOWER CHURCHILL PROJECT COMPANIES
COMBINED STATEMENT OF CHANGES IN EQUITY

(thousands of Canadian dollars)	Notes	Share Capital	Shareholder Contributions	Reserves	Deficit	Total
Balance at January 1, 2018		**4**	**2,839,620**	**(73,895)**	**(7,763)**	**2,757,966**
Profit for the year		**-**	**-**	**-**	**1,208**	**1,208**
Distribution of income		**-**	**-**	**-**	**(10)**	**(10)**
Net change in fair value of cash flow hedges	**12**	**-**	**-**	**3,721**	**-**	**3,721**
Total comprehensive income for the year		**-**	**-**	**3,721**	**1,198**	**4,919**
Shareholder contributions		**-**	**529,415**	**-**	**-**	**529,415**
Balance at December 31, 2018		**4**	**3,369,035**	**(70,174)**	**(6,565)**	**3,292,300**
Balance at January 1, 2017		4	2,026,207	(9,807)	(6,186)	2,010,218
Loss for the year		-	-	-	(1,567)	(1,567)
Distribution of income		-	-	-	(10)	(10)
Net change in fair value of cash flow hedges	12	-	-	(64,088)	-	(64,088)
Total comprehensive loss for the year		-	-	(64,088)	(1,577)	(65,665)
Shareholder contributions		-	813,413	-	-	813,413
Balance at December 31, 2017		4	2,839,620	(73,895)	(7,763)	2,757,966

See accompanying notes

LOWER CHURCHILL PROJECT COMPANIES
COMBINED STATEMENT OF CASH FLOWS

For the year ended December 31 (thousands of Canadian dollars)	Notes	**2018**	2017
Operating activities			
Profit (loss) for the year		**1,208**	(1,567)
Adjustments to reconcile profit (loss) to cash used in operating activities:			
Finance income	16	**(33,449)**	(26,706)
Finance expense	16	**29,319**	24,634
Amortization of long-term prepayments		**6,299**	2,761
Reserves amortized to profit or loss	12	**3,721**	1,752
Increase in prepayments		**(23,192)**	-
Changes in non-cash working capital balances	24	**1,420**	(1,817)
Interest received		**170**	105
Interest paid		**(9)**	(7)
Net cash used in operating activities		**(14,513)**	(845)
Investing activities			
Additions to property, plant and equipment		**(804,482)**	(2,016,319)
Additions to intangible assets	7	**(2,409)**	(3,929)
Change in advances	9	**51,660**	(12,460)
Change in investments	8	**1,037,684**	(1,244,945)
Interest received		**44,814**	36,329
Changes in non-cash working capital balances	24	**(175,530)**	(600,110)
Net cash provided from (used in) investing activities		**151,737**	(3,841,434)
Financing activities			
Proceeds from long-term debt		**-**	2,900,000
Change in restricted cash		**(385,069)**	341,481
Increase in Class B partnership units	14	**-**	54,979
Interest paid		**(291,624)**	(235,855)
Change in deferred revenue	13	**11,600**	8,800
Increase in shareholder contributions	15	**529,415**	813,413
Settlement of cash flow hedges	12	**-**	(65,840)
Distribution of income		**(10)**	(10)
Net cash (used in) provided from financing activities		**(135,688)**	3,816,968
Net increase (decrease) in cash		**1,536**	(25,311)
Cash, beginning of year		**4,031**	29,342
Cash, end of year		**5,567**	4,031

See accompanying notes

1. NATURE AND DESCRIPTION OF THE PROJECT

These audited combined financial statements include the financial information of the consolidated Labrador-Island Link Holding Corporation (LIL Holdco), Muskrat Falls Corporation (Muskrat Falls), Labrador Transmission Corporation (Labrador Transco) and the Lower Churchill Management Corporation (LCMC). Collectively, the financial information from these combined companies is referred to as the Lower Churchill Project Companies (the Project).

Each of the entities was separately formed under the laws of the Province of Newfoundland and Labrador. LIL Holdco was formed on July 31, 2012, whereas Muskrat Falls, Labrador Transco and LCMC were formed on November 13, 2013.

The Project was established to carry on the business of designing, engineering, constructing, commissioning, owning, financing, operating and maintaining the assets and property constituting the Labrador-Island Link (LIL), the Labrador Transmission Assets (LTA) and the Muskrat Falls (MF) hydroelectric plant.

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 MF hydroelectric plant. Muskrat Falls and Labrador Transco have also entered into the Generator Interconnection Agreement (GIA) with Hydro which governs the development and operation of the LTA connecting the Muskrat Falls plant to the existing hydroelectric facility in Churchill Falls. 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 PPA with Hydro. Hydro's obligation to pay for the costs under the PPA is absolute, non-conditional and irrevocable.

Labrador-Island Link Partnership (the Partnership or LIL LP) has entered into the LIL Lease Agreement and the Transmission Funding Agreement (TFA) with Labrador-Island Link Operating Corporation (LIL Opco) and Hydro, both of which are wholly-owned subsidiaries of Nalcor Energy (Nalcor). These agreements effectively provide Hydro with transmission services over the LIL. LIL Opco will maintain and operate the LIL on behalf of the Partnership.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance and Basis of Measurement

These annual audited combined financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), with the exception of the fact that these statements are combined as described in Note 1. The Project has adopted accounting policies which are based on the IFRS applicable as at December 31, 2018, and includes individual IFRS, International Accounting Standards (IAS), and interpretations made by the IFRS Interpretations Committee and the Standing Interpretations Committee.

These annual audited combined financial statements have been prepared on a historical cost basis. The annual audited combined financial statements are presented in Canadian Dollars (CAD) and all values rounded to the nearest thousand, except when otherwise noted. The annual audited combined financial statements reflect the financial position and financial performance of the Project and do not include other assets, liabilities, revenues, and expenses of the partners of LIL LP. These annual audited combined financial statements were approved by Nalcor's Board of Directors on February 28, 2019.

2.2 Basis of Consolidation

The Project 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 the Project:

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

Based on the criteria outlined in IFRS 10, the Project has determined that LIL Holdco controls the LIL LP and LIL LP controls the LIL Construction Project Trust (Project Trust or the IT) for financial reporting purposes. The IT is a structured entity created for the purpose of obtaining financing and lending the proceeds to LIL LP. LIL LP used judgment in assessing many factors to determine control of the IT, including its exposure to variability in the IT's investments and its role in the formation of the IT. The Project has determined that Muskrat Falls and Labrador Transco are not the primary beneficiaries of the Muskrat Falls/Labrador Transmission Assets Funding Trust (MF/LTA Funding Trust) and that the LIL LP does not control the Labrador-Island Link Funding Trust (LIL Funding Trust) and has not included the results of the funding trusts in these audited combined financial statements.

2.3 Cash and Cash Equivalents

Cash and cash equivalents consist of amounts on deposit with a Schedule 1 Canadian Chartered Bank, as well as highly liquid investments with maturities of three months or less.

2.4 Restricted Cash

Restricted cash consists of cash held on deposit with Schedule 1 Canadian Chartered Banks and administered by the Collateral Agent. Restricted cash is used for the sole purpose of funding construction costs related to the LIL, LTA and MF hydroelectric plant, including pre-funded equity amounts required under the LIL Project Finance Agreement (LIL PFA) and MF/LTA Project Finance Agreement (MF/LTA PFA). The Project draws funds from these accounts in accordance with procedures set out in the LIL PFA and the MF/LTA PFA. Restricted cash also includes accounts administered by the Trustee of the IT and funds held in trust by solicitors of the Project.

2.5 Property, Plant and Equipment

Items of property, plant and equipment are recognized using the cost model and thus are recorded 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 the Project's accounting policy outlined in Note 2.7. Costs capitalized with the related asset include all costs directly attributable to bringing the asset into operation.

Property, plant and equipment are not revalued for financial reporting purposes. Depreciation of these assets commences when the assets are ready for their intended use.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Project support assets	4 - 7 years

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

2.6 Intangible Assets

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

Intangible assets with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. Computer software is amortized on a straight-line basis over their finite useful lives of one year. Amortization of assets under development will commence once the Project begins recovering its costs for these assets over the term of the GIA/PPA and TFA. As use of the intangible assets is directly attributable to the construction of the LIL, LTA and MF hydroelectric plant, related amortization costs are capitalized as incurred. The estimated useful life and amortization method are reviewed at the end of each reporting year, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

2.7 Borrowing Costs

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

2.8 Impairment of Non-Financial Assets

At the end of each reporting period, the Project reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

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

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

2.9 Provisions

A provision is a liability of uncertain timing or amount. A provision is recognized if the Project 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 Combined Statement of Financial Position date using the current discount rate.

2.10 Revenue Recognition

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

2.11 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Lessor accounting

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Project's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Project's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

<u>Lessee accounting</u>
Assets held under finance leases are initially recognized as assets of the Project at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Combined Statement of Financial Position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Project's general policy on borrowing costs (Note 2.7). Contingent rental costs are recognized as operating costs in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2.12 Net Finance (Income) Expense
For all financial instruments measured at amortized cost, interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

2.13 Foreign Currencies
Transactions in currencies other than the Project'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 Combined Statement of Profit (Loss) and Comprehensive Income (Loss) as other expense.

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

2.15 Financial Instruments
Financial assets and financial liabilities are recognized in the Combined Statement of Financial Position when the Project becomes a party to the contractual provisions of the instrument and are initially measured at fair value. 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 fair value through profit or loss (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. All recognized financial assets and financial liabilities are subsequently measured in their entirety at either amortized cost or fair value, depending on the classification of the financial assets and financial liabilities.

Classification of Financial Instruments

The Project has classified each of its financial instruments into the following categories:

Financial instrument	Category
Cash	Amortized cost
Restricted cash	Amortized cost
Trade and other receivables	Amortized cost
Long-term investments (including current portion)	Amortized cost
Advances	Amortized cost
Trade and other payables	Amortized cost
Long-term debt	Amortized cost
Class B limited partnership units	Amortized cost

(i) Effective Interest Method

The effective interest method is a method of calculating the amortized cost of a debt instrument and allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses for debt financial assets, through the expected life of the debt instrument, or, where appropriate, a shorter period to the gross carrying amount on initial recognition.

Income or expense is recognized on an effective interest basis for debt instruments other than those financial assets and liabilities classified as at FVTPL.

Financial Assets

(ii) Financial assets at amortized cost

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognized in profit or loss and is included in ‘Net Finance (Income) Expense’.

Financial Liabilities and Equity Instruments

(iii) Financial liabilities at amortized cost

Financial liabilities that do not meet the criteria of FVTPL or are not designated as such are subsequently measured at amortized cost using the effective interest method.

(iv) Derivative Instruments and Financial Instruments used for Hedging

Derivative instruments are utilized by the Project to manage risk. The Project’s policy is not to utilize derivative instruments for speculative purposes. Derivatives are initially measured at fair value at the date the derivative contracts are entered into and are subsequently measured at their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging relationship.

The Project 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 the Project actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. The Project 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 Project does not hold any fair value hedges.

Hedges which meet the criteria for hedge accounting are accounted for as follows:

Cash Flow Hedges
The effective portion of the gain or loss on the hedging instrument is recognized directly in other comprehensive income (loss), while any ineffective portion is recognized immediately in the Combined Statement of Profit (Loss) and Comprehensive Income (Loss) for the period in 'Other Expense'.

Amounts recognized as other comprehensive income (loss) are capitalized as Construction in Progress until the the assets are ready for their intended use.

2.16 Derecognition of Financial Instruments

The Project derecognizes a financial asset only 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 entity. If the Project neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, its retained interest in the asset and any associated liability for amounts it may have to pay is recognized. If the Project retains substantially all the risks and rewards of ownership of a transferred financial asset, it continues to recognize the financial asset and also recognizes the collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. The Project derecognizes financial liabilities when, and only when, its obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

2.17 Impairment of Financial Assets

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

The Project always recognizes lifetime expected credit losses (ECL) for trade and other receivables. The expected credit losses on these financial assets are estimated based on the Project'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. The Project 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 long-term investments.

For all other financial instruments, the Project 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, the Project 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 expected credit losses 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.

Significant increase in credit risk
In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Project compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Project considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Project's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies and other similar organizations, as well as consideration of various external sources of actual and forecasted economic information that relate to the Project's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Project presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Project has reasonable and supportable information that demonstrates otherwise.

The Project assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if the financial instrument has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Project considers a financial asset to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definition.

The Project regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default
The Project considers that an event of default has occurred when there is a breach of financial covenants by a counterparty or information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Project, in full. Irrespective of the outcome of the above assessment, the Project considers that default has occurred when a financial asset is more than 90 days past due unless the Project has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets
A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about significant financial difficulty of the issuer or the borrower; a breach of contract, such as a default or past due event; the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider; it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy
The Project writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery. Financial assets written off may still be subject to enforcement activities under the Project's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

Measurement and recognition of expected credit losses
The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Project in accordance with the contract and all the cash flows that the Project expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17 Leases.

Where lifetime ECL is measured on a collective basis to cater to cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available, the financial instruments are grouped by the nature of the financial instruments; past due status; nature and size of industry of debtors; nature of collaterals for finance lease receivables; and external credit ratings where available. The grouping is regularly reviewed by Management to ensure the constituents of each group continue to share similar credit risk characteristics.

If the Project has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Project measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

The Project recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income (loss) and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the combined statement of financial position.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the annual audited combined financial statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses including, but not limited to, allocations of costs among entities. Actual results may differ materially from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is reviewed if the revision affects only that period or future periods.

3.1 Use of Judgment

(i) Functional Currency
Functional currency was determined by evaluating the primary economic environment in which the Project operates. As the Project 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. Management has determined that LIL Holdco should consolidate the Partnership and the IT but should not consolidate the LIL Funding Trust and that Muskrat Falls and Labrador Transco should not consolidate the MF/LTA Funding Trust.

3.2 Use of Estimates

(i) Property, Plant and Equipment
Amounts recorded for depreciation are based on the useful lives of the Project'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) Intangible Assets
Amounts recorded for amortization are based on the useful lives of the Project's assets. These useful lives are Management's best estimate of the service lives of these assets and are reviewed on an annual basis. Changes to these lives could materially affect the amount of amortization recorded.

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

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

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, 2018, January 1, 2019 or January 1, 2020, as specified.

- *IFRS 9 – Financial Instruments*[1]
- *IFRS 15 – Revenue from Contracts with Customers*[1]
- *IFRIC 22 – Foreign Currency Transactions and Advance Consideration*[1]
- *IFRS 16 – Leases*[2]
- *IAS 23 – Borrowing Costs* (Amendments to IAS 23) [2]
- *IAS 1 – Presentation of Financial Statements*[3] *and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors*[3] (Amendments to IAS 1 and IAS 8)

[1]Effective for annual periods beginning on or after January 1, 2018.
[2]Effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.
[3]Effective for annual periods beginning on or after January 1, 2020, with earlier application permitted.

4.1 IFRS 9 – Financial Instruments

IFRS 9 **–** *Financial Instruments* (as revised in July 2014) became effective for accounting periods commencing on January 1, 2018. IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities, impairment for financial assets and general hedge accounting. Details of these new requirements as well as their impact on the Project's annual audited combined financial statements are described below.

The Project has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

4.1.1 Classification and measurement of financial assets

The date of initial application of IFRS 9 is January 1, 2018. the Project has applied the requirements of IFRS 9 to instruments that have not been derecognized as at January 1, 2018 and has not applied the requirements to instruments that have already been derecognized as at January 1, 2018. Comparative amounts in relation to instruments that have not been derecognized as at January 1, 2018 have been restated where appropriate.

All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Management reviewed and assessed the Project's existing financial assets as at January 1, 2018 based on the facts and circumstances that existed at that date, and concluded that the initial application of IFRS 9 has had the following impact on the Project's financial assets as regards to their classification and measurement:

- financial assets classified as held-to-maturity and loans and receivables under IAS 39 that were measured at amortized cost continue to be measured at amortized cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

Note 4.1.5 illustrates the change in classification of the Project 's financial assets upon application of IFRS 9.

4.1.2 Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Project to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets.

As at January 1, 2018, Management reviewed and assessed the Project's existing financial assets and amounts due from customers for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9 to determine the credit risk of the respective items at the date they were initially recognized, and compared that to the credit risk as at January 1, 2017 and January 1, 2018. The comparison made as at January 1, 2017, January 1, 2018 and December 31, 2018 determines whether 12 month expected credit losses should be recognized or lifetime expected credit loss should be recognized where credit risk has increased significantly for the respective financial instruments at that date. There was no adjustment resulting from the application of the impairment model under IFRS 9 from what was previously recorded under IAS 39.

4.1.3 Classification and measurement of financial liabilities

The application of IFRS 9 has had no impact on the measurement of the Project's financial liabilities. Note 4.1.5 illustrates the change in classification of the Project's financial liabilities upon application of IFRS 9.

4.1.4 General hedge accounting

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Project's risk management activities have also been introduced.

In accordance with IFRS 9's transition provisions for hedge accounting, the Project has applied IFRS 9 hedge accounting requirements prospectively from the date of initial application on January 1, 2018. The Project's qualifying hedging relationships in place as at January 1, 2018 qualified for hedge accounting in accordance with IFRS 9 and were therefore regarded as continuing hedging relationships. No rebalancing of any of the hedging relationships was necessary on January 1, 2018. As the critical terms of the hedging instruments match those of their corresponding hedged items, all hedging relationships continue to be effective under IFRS 9's effectiveness assessment requirements. The Project has not designated any hedging relationships under IFRS 9 that would not have met the qualifying hedge accounting criteria under IAS 39. Consistent with prior periods, the Project has continued to designate the change in fair value of the entire forward contract, i.e. including the forward element, as the hedging instrument in the Project's cash flow hedge relationships.

The application of the IFRS 9 hedge accounting requirements has had no impact on the results and financial position of the Project for the current and/or prior years. Refer to Note 20 for detailed disclosures regarding the Project's risk management activities.

4.1.5 Disclosures in relation to the initial application of IFRS 9

The table below illustrates the classification of financial assets and financial liabilities under IFRS 9 and IAS 39 at January 1, 2018.

Financial instrument	Category under IAS 39	Category under IFRS 9
Cash	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Long-term investments (including current portion)	Held-to-maturity investments	Amortized cost
Advances	Loans and receivables	Amortized cost
Trade and other payables	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost
Class B limited partnership units	Other financial liabilities	Amortized cost

4.2 IFRS 15 – Revenue from Contracts with Customers

IFRS 15 – Revenue from Contracts with Customers (as amended in April 2016) became effective for accounting periods commencing on January 1, 2018. The Project has applied IFRS 15 in accordance with the fully retrospective transitional approach using practical expedients for completed contracts (IFRS 15.C5(a)), modified contracts (IFRS 15.C5(c)) and allowing both non-disclosure of the amount of the transaction price allocated to the remaining performance obligations, and an explanation of when it expects to recognize that amount as revenue for all reporting periods presented before the date of initial application (IFRS 15.C5(d)). Subsequent to adopting IFRS 15 there were no adjustments to the amounts reported in the Project's annual audited combined financial statements.

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including *IAS 18 – Revenue, IAS 11 – Construction Contracts* and the related interpretations.

IFRS 15 covers only revenue arising from contracts with customers. Under IFRS 15, a customer of the Project is a party that has contracted with the Project to obtain goods or services that are an output of the Project's ordinary activities in exchange for consideration. Unlike the scope of IAS 18, the recognition and measurement of interest income and dividend income from debt and equity investments are no longer within the scope of IFRS 15. Instead, they are within the scope of IFRS 9.

As mentioned above, IFRS 15 establishes a single model to deal with revenue from contracts with customers. Its core principle is that the Project should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Project expects to be entitled, in exchange for those goods or services.

The Project's accounting policies for its revenue streams are disclosed in Note 2.

4.3 IFRIC 22 – Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue).

The application of these amendments to IFRIC 22 had no impact on the Project's annual audited combined financial statements.

4.4 IFRS 16 – Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It will supersede the following lease standard and interpretations upon its effective date:

- IAS 17 – Leases;
- IFRIC 4 – Determining Whether an Arrangement contains a Lease;
- SIC-15 – Operating Leases – Incentives; and
- SIC-27 – Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer.

The standard introduces significant changes to lessee accounting: it removes the distinction between operating and finance leases under IAS 17 and requires a lessee to recognize a right-of-use asset and a lease liability at lease commencement for all leases, except for short-term leases and leases of low value assets.

In contrast to lessee accounting, the IFRS 16 lessor accounting requirements remain largely unchanged from IAS 17, which continue to require a lessor to classify a lease as either an operating lease or a finance lease.

IFRS 16 is effective for reporting periods beginning on or after January 1, 2019 with early application permitted (as long as IFRS 15 is also applied). Management has elected to adopt the standard as of the effective date.

A lessee can apply IFRS 16 either by a full retrospective approach or a modified retrospective approach. Management intends to apply the modified approach, as a result there is no requirement to restate comparative information, the cumulative effect of initially applying IFRS 16 will be presented as an adjustment to opening retained earnings. The application of IFRS 16 will not have a material impact on the amounts reported and disclosures made in the Project's annual audited combined financial statements.

4.5 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.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments (January 1, 2019), with early application permitted. Since the Project's current practice is in line with these amendments, the application of these amendments will have no impact on the Project's annual audited combined financial statements.

4.6 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 International Accounting Standards Board 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 new definition states that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity".

The amendments are effective for annual periods beginning on or after January 1, 2020 with earlier application permitted. The amendments are intended to improve the understanding of the existing requirements rather than to significantly impact the Project's materiality judgments.

5. TRADE AND OTHER RECEIVABLES

As at December 31 (thousands of Canadian dollars)	**2018**	2017
Letters of credit	**184,111**	-
HST receivable	**28,375**	89,324
Insurance receivable	**6,750**	14,625
Interest receivable	**1,475**	968
Receivable due from related parties	**31**	140
	220,742	105,057

6. PROPERTY, PLANT AND EQUIPMENT

(thousands of Canadian dollars)	Project Support Assets	Construction in Progress	Total
Cost			
Balance at January 1, 2017	197,158	6,592,536	6,789,694
Additions	19,659	2,281,349	2,301,008
Other adjustments	(196)	-	(196)
Balance at December 31, 2017	216,621	8,873,885	9,090,506
Additions	**25**	**1,124,802**	**1,124,827**
Other adjustments	**(2)**	**-**	**(2)**
Balance at December 31, 2018	**216,644**	**9,998,687**	**10,215,331**
Depreciation			
Balance at January 1, 2017	123,838	-	123,838
Depreciation	27,334	-	27,334
Balance at December 31, 2017	151,172	-	151,172
Depreciation	**27,803**	**-**	**27,803**
Balance at December 31, 2018	**178,975**	**-**	**178,975**
Carrying value			
Balance at January 1, 2017	73,320	6,592,536	6,665,856
Balance at December 31, 2017	65,449	8,873,885	8,939,334
Balance at December 31, 2018	**37,669**	**9,998,687**	**10,036,356**

Capitalized Borrowing Costs

The construction of the LIL, LTA and MF hydroelectric facility is being financed, in part, through the issuance of long-term debt and contributed capital. For the year ended December 31, 2018, $250.0 million (2017 - $219.2 million) of borrowing costs were capitalized. The Project also capitalized borrowing costs associated with the Limited B units of $41.8 million (2017 - $37.2 million) as non-cash additions to property, plant and equipment.

7. INTANGIBLE ASSETS

(thousands of Canadian dollars)	Computer Software	Assets Under Development	Total
Cost			
Balance at January 1, 2017	4,490	29,961	34,451
Additions	708	3,221	3,929
Balance at December 31, 2017	5,198	33,182	38,380
Additions	**688**	**1,721**	**2,409**
Balance at December 31, 2018	**5,886**	**34,903**	**40,789**
Amortization			
Balance at January 1, 2017	4,079	-	4,079
Amortization	764	-	764
Balance at December 31, 2017	4,843	-	4,843
Amortization	**697**	**-**	**697**
Balance at December 31, 2018	**5,540**	**-**	**5,540**
Carrying value			
Balance at January 1, 2017	411	29,961	30,372
Balance at December 31, 2017	355	33,182	33,537
Balance at December 31, 2018	**346**	**34,903**	**35,249**

8. INVESTMENTS

As at December 31 (thousands of Canadian dollars)	Year of Maturity	**2018**	2017
Two $75.0 million Floating Rate Deposit Notes, with interest paid at the one-month Canadian Dollar Offered Rate (CDOR) plus 0.20%.	2019	**150,000**	150,000
$182.9 million Amortizing Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.20%.	2019	**7,631**	90,833
$483.8 million Amortizing Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.20%.	2019	**46,923**	328,872
$548.6 million Amortizing Fixed Rate Deposit Note, with interest paid at a rate of 1.644% per annum	2019	**22,892**	272,501
$725.7 million Amortizing Fixed Rate Deposit Note, with interest paid at a rate of 1.679% per annum.	2019	**70,384**	493,308
Total investments, end of year		**297,830**	1,335,514
Less: redemptions to be received within one year		**297,830**	1,037,684
Long-term investments, end of year		**-**	297,830

In July 2017, the Project purchased six structured deposit notes using the proceeds from the issue of long-term debt. The investments are restricted in nature and subject to the provisions contained within the MF/LTA PFA and LIL PFA.

9. ADVANCES

Advances consist of deposits paid to contractors on long-term construction contracts in relation to the MF hydroelectric facility, and the LIL. Advances are secured by a letter of credit from a Canadian Schedule 1 Chartered Bank or a vendor performance bond. The bond is underwritten by three sureties with Standard and Poor's ratings of A or better.

As at December 31 (thousands of Canadian dollars)	**2018**	2017
Total advances	**25,923**	77,583
Less: current portion	**25,028**	77,583
Total long-term advances	**895**	-

10. TRADE AND OTHER PAYABLES

As at December 31 (thousands of Canadian dollars)	**2018**	2017
Trade payables	**245,598**	310,115
Accrued interest	**30,531**	30,532
Payables due to related parties	**15,465**	11,295
Other payable	**3,568**	5,889
	295,162	357,831

11. LONG-TERM DEBT

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

(thousands of Canadian dollars)	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	**2018**	2017
LIL LP						
Tranche A	725,000	3.76	2013	2033	**725,226**	725,241
Tranche B	600,000	3.86	2013	2045	**600,096**	600,100
Tranche C	1,075,000	3.85	2013	2053	**1,075,197**	1,075,203
Tranche 1-10	105,000	1.14-1.75	2017	2020-2025	**105,020**	105,025
Tranche 11-20	105,000	1.84-2.37	2017	2025-2030	**105,028**	105,032
Tranche 21-30	105,000	2.41-2.64	2017	2030-2035	**105,053**	105,057
Tranche 31-40	105,000	2.66-2.80	2017	2035-2040	**105,107**	105,112
Tranche 41-50	105,000	2.81-2.86	2017	2040-2045	**105,111**	105,115
Tranche 51-60	105,000	2.84-2.86	2017	2045-2050	**105,140**	105,144
Tranche 61-70	105,000	2.85	2017	2050-2055	**105,202**	105,208
Tranche 71-74	315,000	2.85	2017	2055-2057	**315,648**	315,666
Muskrat Falls/Labrador Transco						
Tranche A	650,000	3.63	2013	2029	**650,158**	650,173
Tranche B	675,000	3.83	2013	2037	**675,084**	675,089
Tranche C	1,275,000	3.86	2013	2048	**1,275,219**	1,275,227
Tranche 1-10	204,763	1.14-1.75	2017	2020-2025	**204,801**	204,811
Tranche 11-20	224,283	1.84-2.37	2017	2025-2030	**224,343**	224,351
Tranche 21-30	252,595	2.41-2.64	2017	2030-2035	**252,721**	252,730
Tranche 31-40	288,185	2.66-2.80	2017	2035-2040	**288,481**	288,495
Tranche 41-50	331,037	2.81-2.86	2017	2040-2045	**331,384**	331,398
Tranche 51-60	381,084	2.84-2.86	2017	2045-2050	**381,596**	381,613
Tranche 61-64	168,053	2.85	2017	2050-2052	**168,368**	168,378
Total debentures	7,900,000				**7,903,983**	7,904,168

On November 29, 2013, the IT entered into the IT Project Finance Agreement (IT PFA) with the LIL Funding Trust, LIL LP, LIL Opco and the Collateral Agent. Under the terms and conditions of the IT PFA, the LIL Funding Trust agreed to provide a credit facility in the amount of $2.4 billion available in three tranches (Tranches A, B and C) to the IT, which itself proceeded to on-lend this amount to LIL LP under the terms of the LIL PFA. On December 13, 2013, all three tranches of the construction facility were drawn down by way of a single advance to the IT of $2.4 billion to an account administered by the Collateral Agent. On May 10, 2017, the IT entered into second amendments to the IT PFA and the LIL PFA. Under the terms and conditions of the second amended IT PFA, the LIL Funding Trust agreed to provide an additional credit facility in the amount of $1.05 billion to the IT. These facilities, available in a series of 74 bonds with maturities of every six months beginning in December 2020, were fully drawn down by the IT on May 25, 2017 by way of a single advance to an account administered by a Collateral Agent. LIL LP draws funds from this account on a monthly basis in accordance with procedures set out in the LIL PFA. As at December 31, 2018, the $2.4 billion construction facility was fully utilized by LIL LP (2017 - $2.4 billion) and $0.7 billion of the second construction facility was utilized by LIL LP (2017 - $0.5 billion).

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

On November 29, 2013, Muskrat Falls and Labrador Transco entered into the MF/LTA PFA with the MF/LTA Funding Trust 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 and 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. Muskrat Falls and Labrador Transco draw funds from this account on a monthly basis in accordance with procedures set out in the MF/LTA PFA. As of December 31, 2018, the $2.6 billion construction facility was fully utilized by Muskrat Falls and Labrador Transco (2017 - $2.6 billion) and $1.6 billion of the second construction facility was utilized by Muskrat Falls and Labrador Transco (2017 - $0.9 billion).

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 MF hydroelectric facility. As of December 31, 2018, Muskrat Falls' cumulative portion of actual debt drawn was 83% (2017 - 81%) and Labrador Transco's cumulative portion of actual debt drawn was 17% (2017 - 19%). Cumulative adjustments were made in the current year to reflect Muskrat Falls' and Labrador Transco's ratable share of the actual debt drawn.

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 and Labrador Transco 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.

The role of the Collateral Agent is to act on behalf of the lending parties, including the LIL Funding Trust, 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.

As security for these debt obligations, LIL LP, Muskrat Falls and Labrador Transco have 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)	2019	2020	2021	2022	2023
Sinking fund instalments	-	63,996	127,991	127,991	127,991

12. ACCUMULATED OTHER COMPREHENSIVE INCOME

The components of, and changes in, accumulated other comprehensive loss is as follows:

(thousands of Canadian dollars)	**2018**	2017
Cash flow hedges		
Balance at January 1	**(73,895)**	(9,807)
Net fair value losses on cash flow hedges	**-**	(65,840)
Reclassification adjustments for amounts recognized in profit or loss	**3,721**	1,752
Balance at December 31	**(70,174)**	(73,895)

13. DEFERRED REVENUE

LIL Opco has the option to prepay rent in accordance with the LIL Lease Agreement. For the year ended December 31, 2018, LIL Opco had a prepayment balance of $36.5 million (2017 - $24.9 million) to the Partnership. The Partnership has recognized these prepayments as deferred revenue which will be amortized to income once the LIL is in-service.

14. LIMITED PARTNERSHIP UNITS

Debt and equity instruments issued by LIL Holdco are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

14.1. Description of Class B Limited Partnership Units

The Class B limited partnership units represent Emera NL's ownership interest in the LIL LP. As described in the LIL Limited Partnership Agreement, these units have certain rights and obligations, including mandatory distributions, that indicate that the substance of the units represent a financial liability and are measured at amortized cost using the effective interest method. The return on the units is classified as a finance expense. All finance expenses associated with the units have been capitalized.

14.2 Class B Limited Partnership Units

As at December 31 (thousands of Canadian dollars)	**Units**	**2018**	Units	2017
Class B limited partnership units, beginning of year	**25**	**491,298**	25	399,086
Contributions	**-**	**-**	-	54,979
Accrued interest	**-**	**41,760**	-	37,233
Class B limited partnership units, end of year	**25**	**533,058**	25	491,298

15. SHAREHOLDER'S EQUITY

15.1 Share Capital

As at December 31 (thousands of Canadian dollars)	**2018**	2017
Common shares without nominal or par value		
Authorized – unlimited		
Issued - fully paid and outstanding - 400	**4**	4

15.2 Shareholder Contributions

As at December 31 (thousands of Canadian dollars)	**2018**	2017
Total shareholder contributions	**3,369,035**	2,839,620

16. NET FINANCE INCOME

For the year ended December 31 (thousands of Canadian dollars)	**2018**	2017
Finance income		
Interest on investments	**15,737**	12,248
Bank interest	**170**	105
Other interest income	**17,542**	14,353
	33,449	26,706
Finance expense		
Interest and fees on long-term debt	**279,371**	243,768
Interest on Class B limited partnership units	**41,760**	37,233
Bank interest	**3**	-
Bank charges	**28**	28
	321,162	281,029
Interest capitalized during construction	**(291,843)**	(256,395)
	29,319	24,634
Net finance income	**4,130**	2,072

17. OPERATING COSTS

For the year ended December 31 (thousands of Canadian dollars)	**2018**	2017
Salaries and benefits expense	**1,290**	1,734
Training	**973**	617
Professional services	**230**	456
Travel and transportation	**-**	2
Advertising, donations and community involvement	**156**	136
Cost recoveries	**475**	278
	3,124	3,223

18. OTHER EXPENSE

For the year ended December 31 (thousands of Canadian dollars)	**2018**	2017
Cash flow hedge ineffectiveness	**-**	1,096
Realized foreign exchange loss (gain)	**126**	(391)
Unrealized foreign exchange loss	**62**	131
Other expense	**188**	836

19. DISTRIBUTION OF INCOME

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

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

20.1 Fair Value

The estimated fair values of financial instruments as at December 31, 2018 and 2017 are based on relevant market prices and information available at the time. Fair value estimates are based on valuation techniques which are significantly affected by the assumptions used including the amount and timing of future cash flows and discount rates reflecting various degrees of risk. As such, the fair value estimates below are not necessarily indicative of the amounts that the Project might receive or incur in actual market transactions.

As a significant number of the Project's assets and liabilities do not meet the definition of a financial instrument, the fair value estimates below do not reflect the fair value of the Project 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 Project 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, 2018 and 2017.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
As at December 31 (thousands of Canadian dollars)		**2018**		2017	
Financial assets					
Investments	**2**	**297,830**	**297,760**	1,335,514	1,334,842
Financial liabilities					
Long-term debt	**2**	**7,903,983**	**8,608,064**	7,904,168	8,651,466
Class B limited partnership units	**3**	**533,058**	**533,058**	491,298	491,298

The fair values of cash, restricted cash, trade and other receivables, advances, and trade and other payables approximate their carrying values due to their short-term maturity.

The fair values of Level 2 financial instruments are determined using quoted prices in active markets, which in some cases are adjusted for factors specific to the asset or liability. Level 2 fair values of other risk management assets and liabilities and long-term debt are determined using observable inputs other than unadjusted quoted prices, such as interest rate yield curves.

The Class B limited partnership units are carried at amortized cost, calculated using the effective interest method, which approximates fair value. The effective interest rate of 8.5% (2017 - 8.5%) is defined in the Newfoundland and Labrador Development Agreement as Emera NL's rate of return on equity, and is equal to the rate approved by the Newfoundland and Labrador Board of Commissioners of Public Utilities for privately-owned regulated electrical utilities. Due to the unobservable nature of the effective interest rate and resulting discounted cash flows associated with the units, the instruments have been classified as Level 3.

The table below sets forth a summary of changes in fair value of the Project's Level 3 financial liabilities given a one percent change in the discount rate while holding other variables constant:

(thousands of Canadian dollars)	1% increase in discount rate	1% decrease in discount rate
Class B limited partnership units	(16,420)	15,986

20.2 Risk Management

The Project 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 Project's expected future cash flows.

Credit Risk

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

Liquidity Risk

The Project 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 cash, restricted cash on hand and partnership and shareholder contributions. Muskrat Falls, Labrador Transco and LIL LP can access the funds drawn down from the Muskrat/LTA and LIL construction facilities, partnership contributions and shareholder contributions for the payment of construction costs as well as interest payments.

The following are the contractual maturities of the Project's financial liabilities, including principal, sinking funds and interest as at December 31, 2018:

(thousands of Canadian dollars)	< 1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	295,162	-	-	-	295,162
Long-term debt (including interest and sinking fund)	264,869	812,586	905,836	12,300,597	14,283,888
Unit B partnership units	-	92,891	163,856	2,637,517	2,894,264
	560,031	905,477	1,069,692	14,938,114	17,473,314

Market Risk

In the course of carrying out its operating, financing and investing activities, the Project 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 and Labrador Transco entered into three bond forward contracts 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. 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 $65.9 million was recorded in other comprehensive income (loss) with the ineffective portion of $1.1 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 and Labrador Transco assets are ready for their 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 2018 including the previous cash flow hedge initiated in December 2013 was $3.7 million (2017 - $1.8 million).

Foreign Currency and Commodity Exposure
The Project 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.

21. RELATED PARTY TRANSACTIONS

The Project enters into various transactions with its parent and other affiliates. These transactions occur in 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 the Project transacts are as follows:

Related Party	Relationship
Nalcor	100% shareholder of LIL Holdco, Labrador Transco, LCMC, LIL Opco, Labrador-Island Link General Partner and Muskrat Falls
Emera NL	Limited Partner holding 25 Class B limited partnership units of LIL LP
Labrador-Island Link General Partner	General partner of LIL LP, wholly-owned subsidiary of Nalcor
LIL Opco	Wholly-owned subsidiary of Nalcor
Hydro	Wholly-owned subsidiary of Nalcor
LIL Funding Trust	Party to the IT PFA
MF/LTA Funding Trust	Party to the MF/LTA PFA

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

(a) As at December 31, 2018, the Project has related party payables totaling $15.5 million (2017 - $11.3 million) with Nalcor and Hydro. These payables consist of various intercompany operating and construction costs.

(b) The Project has a $50.0 million (2017 - $50.0 million) unsecured revolving credit facility with Nalcor. As at December 31, 2018, there was no balance outstanding (2017 - $nil) on this credit facility.

(c) For the year ended December 31, 2018, LIL LP had incurred costs of $1.7 million (2017 - $2.7 million) related to assets under development which LIL LP controls the right to collect costs through the LIL Lease Agreement and TFA with LIL Opco and Hydro.

(d) For the year ended December 31, 2018, Labrador Transco had incurred costs of $nil (2017 - $0.5 million) related to assets under development which Labrador Transco controls the right to collect costs through the GIA and PPA with Muskrat Falls and Hydro.

(e) For the year ended December 31, 2018, the Project has received contributions from Nalcor totaling $529.4 million (2017 - $813.4 million).

(f) For the year ended December 31, 2018, LIL Opco prepaid rent to the Partnership in the amount of $11.6 million (2017 - $8.8 million).

(g) For the year ended December 31, 2018, LCMC had revenue of $0.4 million (2017 - $0.4 million) for providing project development and management functions for Muskrat Falls, Labrador Transco and LIL.

(h) For the year ended December 31, 2018, LCMC was charged $29.7 million (2017 - $25.1 million) by Nalcor and Hydro related to intercompany salary costs, administrative services and power purchases for the Lower Churchill Project. LCMC subsequently passes on these costs to Muskrat Falls, Labrador Transco, and LIL LP as part of the project development and management functions LCMC provides to these companies.

22. COMMITMENTS AND CONTINGENCIES

(a) The Partnership is required to make mandatory distributions in accordance with the Partnership Agreement. The amount of periodic distributions will be determined by the General Partner and will commence following commissioning of the LIL.

(b) As part of the LIL PFA, LIL LP has pledged its current and future assets as security to the Collateral Agent. Under the terms and conditions of the IT PFA, LIL LP has also provided a guarantee of the IT's payment obligations to the Collateral Agent for the benefit of the LIL Funding Trust. LIL Holdco has pledged the escrow account, where pre-funded equity contributions have been deposited, as security to the Collateral Agent.

(c) Under the terms and conditions of the Partnership Agreement, LIL Holdco had committed to fund its share of the capital expenditures of the LIL.

(d) LIL LP has entered into the LIL Lease Agreement and the TFA with LIL Opco and Hydro, whereby LIL LP has committed to design and construct the LIL and LIL Opco will operate and maintain the LIL at commissioning and provide such other services as agreed to ensure safe and reliable transmission of electricity. During 2018, LIL LP also entered into the Interim Transmission Funding Agreement with Hydro, whereby LIL LP will operate and maintain the LIL pre-commissioning during the pre-full commissioning interim use period and provide such services as agreed to ensure safe and reliable transmission of electricity.

(e) Muskrat Falls and Labrador Transco have entered into the GIA with Hydro, and Muskrat Falls has entered into the PPA with Hydro for an expected term of 55 years, whereby Muskrat Falls and Labrador Transco have committed to design, construct, operate and maintain the Muskrat Falls hydroelectric facility and LTA, and provide 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.

(f) In July 2012, Nalcor entered into the Energy and Capacity Agreement with Emera NL 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.

(g) As part of the MF/LTA PFA, Labrador Transco and Muskrat Falls have pledged their present and future assets as security to the Collateral Agent.

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

(i) Outstanding commitments for capital projects total approximately $356.2 million as at December 31, 2018 (2017 - $942.8 million). Pre-funded equity requirements associated with the Project Finance Agreements total approximately $505.4 million (2017 - $1,011.0 million). Pre-funded equity is used to fund capital and borrowing costs.

23. CAPITAL MANAGEMENT

Capital includes partner capital, share capital, shareholder contributions, deficit and long-term debt. The Project'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 LIL, the LTA and the MF hydroelectric facility. During this time, it is expected that proceeds from the construction facilities and shareholder contributions will be sufficient to fund the development of the assets. The Province of Newfoundland and Labrador has provided guarantees of equity support in relation to the construction of the Project. These guarantees, together with the proceeds from long-term debt, will ensure sufficient funds are available to finance construction.

24. SUPPLEMENTARY CASH FLOW INFORMATION

For the year ended December 31 (thousands of Canadian dollars)	**2018**	2017
Trade and other receivables	**(115,174)**	(19,535)
Prepayments	**3,733**	3,661
Trade and other payables	**(62,669)**	(586,053)
Changes in non-cash working capital balances	**(174,110)**	(601,927)
Related to:		
Operating activities	**1,420**	(1,817)
Investing activities	**(175,530)**	(600,110)
	(174,110)	(601,927)