LABRADOR - ISLAND LINK LIMITED PARTNERSHIP
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021

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Independent Auditor's Report

To the Partners of Labrador-Island Link Limited Partnership

Opinion
We have audited the consolidated financial statements of Labrador-Island Link Limited Partnership (the "Partnership"), which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statements of loss and comprehensive loss, changes in deficit and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Partnership'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 Partnership or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Partnership'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 Partnership'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 Partnership'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 Partnership 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 21, 2022

LABRADOR - ISLAND LINK LIMITED PARTNERSHIP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31 (thousands of Canadian dollars)	Notes	**2021**	2020
ASSETS			
Current assets			
Cash		**4**	4
Restricted cash		**209,337**	86,870
Trade and other receivables	5	**781**	1,044
Other current assets		**2,640**	2,935
Total current assets		**212,762**	90,853
Non-current assets			
Property, plant and equipment	6	**5,123,457**	4,808,151
Intangible assets	7	**36,256**	35,453
Right-of-use assets		**2,373**	2,511
Total assets		**5,374,848**	4,936,968
LIABILITIES AND DEFICIENCY			
Current liabilities			
Trade and other payables	8	**50,619**	53,690
Current portion of long-term debt	9	**21,000**	21,000
Current portion of lease liabilities		**114**	110
Current portion of deferred revenue	10	**72,600**	-
Total current liabilities		**144,333**	74,800
Non-current liabilities			
Long-term debt	9	**3,399,104**	3,420,178
Deferred revenue	10	**19,100**	71,400
Class A limited partnership units	11	**1,139,796**	749,390
Class B limited partnership units	11	**681,021**	627,669
Lease liabilities		**2,371**	2,485
Contributions		**10**	10
Total liabilities		**5,385,735**	4,945,932
Partners' deficit			
Deficit		**(10,887)**	(8,964)
Total deficiency		**(10,887)**	(8,964)
Total liabilities and deficiency		**5,374,848**	4,936,968

Commitments and contingencies (Note 16)

See accompanying notes

On behalf of the Board:

DIRECTOR

DIRECTOR

LABRADOR - ISLAND LINK LIMITED PARTNERSHIP
CONSOLIDATED STATEMENT OF LOSS AND COMPREHENSIVE LOSS

For the year ended December 31 (thousands of Canadian dollars)	Notes	**2021**	2020
Net finance income	12	**434**	537
Income		**434**	537
Operating costs	13	**2,349**	1,680
Other (income) expense		**(2)**	38
Expenses		**2,347**	1,718
Loss for the year		**(1,913)**	(1,181)
Distribution of income		**(10)**	(10)
Total loss and comprehensive loss for the year		**(1,923)**	(1,191)

See accompanying notes

LABRADOR - ISLAND LINK LIMITED PARTNERSHIP
CONSOLIDATED STATEMENT OF CHANGES IN DEFICIT

(thousands of Canadian dollars)	**Allocation to Class A Limited Partner**	**Allocation to Class B Limited Partner**	**Total Deficit**
Balance at January 1, 2021	**(3,435)**	**(5,529)**	**(8,964)**
Total loss and comprehensive loss for the year	**(1,041)**	**(882)**	**(1,923)**
Balance at December 31, 2021	**(4,476)**	**(6,411)**	**(10,887)**
Balance at January 1, 2020	(3,032)	(4,741)	(7,773)
Total loss and comprehensive loss for the year	(403)	(788)	(1,191)
Balance at December 31, 2020	(3,435)	(5,529)	(8,964)

LABRADOR - ISLAND LINK LIMITED PARTNERSHIP
CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31 (thousands of Canadian dollars)	Notes	**2021**	2020
Operating activities			
Loss for the year		**(1,913)**	(1,181)
Adjustments to reconcile loss to cash used in operating activities:			
Amortization of prepayments		**49**	-
Finance income	12	**(684)**	(1,147)
Finance expense	12	**250**	610
		(2,298)	(1,718)
Increase in prepayments		**(1,369)**	(2,171)
Changes in non-cash working capital balances	18	**-**	20
Interest received		**602**	1,309
Interest paid		**(124,124)**	(124,330)
Net cash used in operating activities		**(127,189)**	(126,890)
Investing activities			
Additions to property, plant and equipment		**(62,081)**	(70,733)
Additions to intangible assets	7	**(850)**	(341)
Decrease in advances		**23**	64
Changes in non-cash working capital balances	18	**(3,243)**	10,233
Net cash used in investing activities		**(66,151)**	(60,777)
Financing activities			
Repayment of long-term debt		**(21,000)**	(10,500)
Change in restricted cash		**(122,467)**	72,880
Increase in Class A limited partnership units	11	**319,287**	106,418
Repayment of Class A limited partnership units	11	**(2,549)**	-
Increase in deferred revenue		**20,300**	19,100
Distribution of income		**(10)**	(10)
Repayment of lease liabilities		**(221)**	(221)
Net cash provided from financing activities		**193,340**	187,667
Net increase (decrease) in cash		**-**	-
Cash, beginning of the year		**4**	4
Cash, end of the year		**4**	4

See accompanying notes

1. DESCRIPTION OF BUSINESS

Labrador-Island Link Limited Partnership (the Partnership or LIL LP) was formed on July 31, 2012 under the laws of the Province of Newfoundland and Labrador. The Partnership's head office is located at 500 Columbus Drive, St. John's, Newfoundland and Labrador, A1B 0C9, Canada.

The Partnership has two limited partners, Labrador-Island Link Holding Corporation (LIL Holdco), a wholly-owned subsidiary of Nalcor Energy (Nalcor), and Emera Newfoundland and Labrador Island Link Inc. (Emera NL). LIL Holdco holds 75 Class A partnership units and one Class C unit while Emera NL holds 25 Class B units. The Partnership is expected to terminate on December 31, 2081, unless terminated earlier or extended in accordance with the Labrador-Island Link Limited Partnership Agreement (the Partnership Agreement or LIL LPA).

The general partner of the Partnership is Labrador-Island Link General Partner Corporation (the General Partner or LIL GP), a wholly-owned subsidiary of Nalcor. Although the General Partner holds legal title to the assets, the Partnership is the beneficial owner and assumes all risks and rewards of the assets.

The Partnership was formed to carry on the business of designing, engineering, constructing, commissioning, owning, financing, operating and maintaining the assets and property constituting the Labrador-Island Link (LIL). LIL LP has entered into the LIL Lease and the Transmission Funding Agreement (TFA) with Labrador-Island Link Operating Corporation (LIL Opco) and Newfoundland and Labrador Hydro (Hydro), both of which are wholly-owned subsidiaries of Nalcor. These agreements effectively provide Hydro with transmission services over the LIL. LIL Opco will maintain and operate the LIL on behalf of the Partnership.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance and Basis of Measurement

These annual audited consolidated financial statements (financial statements) have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

These financial statements have been prepared on a historical cost basis and are presented in Canadian Dollars (CAD) with all values rounded to the nearest thousand, except when otherwise noted. The financial statements reflect the financial position and financial performance of LIL LP and do not include other assets, liabilities, revenue, and expenses of the partners. The financial statements were approved by the General Partner on March 3, 2022.

2.2 Basis of Consolidation

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

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

The Partnership 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 Partnership:

- 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 Partnership has determined that it controls the IT for financial reporting purposes. The Partnership uses judgment in assessing many factors to determine control of the IT, including its exposure to variability in the IT's investments, its role in the formation of the IT and its related party relationship with the general partner. The Partnership has determined that it does not control the LIL Funding Trust and as such has not included the accounts of the LIL Funding Trust in these financial statements.

2.3 Cash

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

2.4 Restricted Cash

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

2.5 Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes expenditures incurred in acquiring inventories and bringing them to their existing condition and location. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

2.6 Property, Plant and Equipment

Items of property, plant and equipment are recognized at cost less accumulated depreciation and accumulated impairment losses. Cost includes materials, labour, contracted services, professional fees and, for qualifying assets, borrowing costs capitalized in accordance with LIL LP's accounting policy outlined in Note 2.8. Costs capitalized with the related asset include all those costs directly attributable to bringing the asset into operation.

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

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

Project support assets	6 to 7 years
Transmission and terminals	15 to 75 years
Service facilities and other	5 to 100 years

Transmission lines and terminal stations include support structures, foundations, conductors and insulators associated with lines at voltages of 735, 350, 315 and 230 kilovolt. Terminal station assets which are used to step up voltages of electricity for transmission and to step down voltages for distribution, provide switching and include HVDC Converters to convert between AC and DC voltages, synchronous condensers and auxiliary systems. Distribution system assets include poles, transformers, subsea cables, and electrode equipment.

Service facilities and other include roads, telecontrol, buildings, vehicles, heavy equipment, furniture, and tools and equipment.

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

2.7 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 International Accounting Standard (IAS) 38.

Intangible assets with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. Computer software is amortized on a straight-line basis over their finite useful lives of one year. Amortization of assets under development will commence once the LIL is available for use and will be amortized over the term of the TFA. As use of the intangible assets is directly attributable to the construction of the LIL, related amortization costs are capitalized as incurred, until such time as the assets are substantially ready for their intended use or sale. The estimated useful life and amortization method are reviewed at the end of each 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.

2.8 Borrowing Costs

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

2.9 Impairment of Non-Financial Assets

Property, plant and equipment and other non-financial assets, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where it is not possible to estimate the recoverable amount of an individual asset, LIL LP estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. The recoverable amount is the higher of fair value less costs of disposal and value in use. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from non-financial assets. 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.

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

2.10 Provisions

A provision is a liability of uncertain timing or amount. A provision is recognized if the Partnership 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 remeasured at each Consolidated Statement of Financial Position date using the current discount rate.

2.11 Revenue Recognition

LIL LP recognizes revenue from contracts with customers related to the right to use the LIL. Revenue is measured based on the consideration specified in the contract with a customer, forecasted over the term of the contract and constrained where applicable. Sales are at rates under the terms of the applicable contracts, or at market rates.

Revenue is recognized when LIL LP satisfies its performance obligation and is determined when it transfers control of a product or service to a customer. Variable components that meet the allocation exemption are recognized as incurred. A contract asset/liability is recognized when the timing of satisfying the performance obligation and the timing of contractual payments are not aligned.

2.12 Leasing

Lessee Accounting

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

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

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

- fixed (and in-substance) lease payments less any lease incentives;
- variable lease payments that depend on an index or rate; and
- payments expected under residual value guarantees and payments relating to purchase options and renewal option periods that are reasonably certain to be exercised (or periods subject to termination options that are not reasonably certain to be exercised).

The lease liability is subsequently measured at amortized cost using the effective interest rate method. Lease liabilities are remeasured, with a corresponding adjustment to the related right-of-use assets, when there is a change in variable lease payments arising from a change in an index or rate, or when LIL LP changes its assessment of whether purchase, renewal or termination options will be exercised. LIL LP did not make any such adjustments during the periods presented.

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

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

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

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

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

2.13 Foreign Currencies

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

2.14 Income Taxes

Provision has not been made in the accompanying financial statements for Canadian federal, provincial, or local taxes since any such liabilities are the responsibility of the individual partners.

2.15 Financial Instruments

Classification and Initial Measurement

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

Financial assets are classified at amortized cost, fair value through other comprehensive income, fair value through profit or loss (FVTPL) or as derivatives designated as hedging instruments in an effective hedge. Financial liabilities are classified at FVTPL, amortized cost or as derivatives designated as hedging instruments in an effective hedge. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial Assets at Amortized Cost

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

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

Financial Liabilities at Amortized Cost

LIL LP subsequently measures all financial liabilities at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the liability is derecognized.

LIL LP's financial liabilities at amortized cost include trade and other payables, Class A and B limited partnership units, and long-term debt.

Derecognition of Financial Instruments

LIL LP derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

LIL LP derecognizes financial liabilities when, and only when, its obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Impairment of Financial Assets

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may 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.

In 2020, the outbreak of the Coronavirus disease (COVID-19) has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. For the year ended December 31, 2021, COVID-19 did not have a significant financial impact on LIL LP's results of operations, financial position or cash flow. There continues to be uncertainty around the duration and magnitude of the pandemic and therefore the extent of any future effect on LIL LP is unknown at this time. Management will continue to assess the impact of COVID-19 on LIL LP's operations and financial results.

3.1 Use of Judgment

(i) <u>Asset Impairment and Reversals</u>
LIL LP applies judgment in evaluating impairment and impairment reversal indicators based on various internal and external factors.

The recoverable amount of a CGU or asset is determined based on the higher of fair value less costs of disposal and its value in use. Management uses judgment in selecting discount rates and considering the occurrence of future events when determining the recoverable amount. Changes in these factors will affect the recoverable amount of CGUs and assets, which may result in a material adjustment to their carrying value.

(ii) <u>Property, Plant and Equipment</u>
LIL LP's accounting policy relating to property, plant and equipment is described in Note 2.6. In applying this policy, judgment is used in determining whether certain costs are additions to the carrying amount of the property, plant and equipment as opposed to repairs and maintenance. If an asset has been developed, judgment is required to identify the point at which the asset is capable of being used as intended and to identify the directly attributable borrowing costs to be included in the carrying value of the development asset. Judgment is also used in determining the appropriate componentization structure for LIL LP's property, plant and equipment.

(iii) Revenue

Management uses judgment in estimating the variable consideration in a contract, such as future sustaining capital costs, and assessing whether a variable component is constrained. Management also uses judgment in allocating amounts to performance obligations and determining the timing of satisfaction of performance obligations. Revenue related to the right to use the LIL is recognized evenly over the time elapse of the term.

(iv) Functional Currency

Functional currency was determined by evaluating the primary economic environment in which the Partnership operates. As the Partnership 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.

(v) Determination of CGUs

LIL LP's accounting policy relating to impairment of non-financial assets is described in Note 2.9. In applying this policy, LIL LP's groups assets into the smallest identifiable groups for which cash flows are largely independent of the cash flows from other assets or groups of assets. Judgment is used in determining the level at which cash flows are largely independent of other assets or groups of assets.

(vi) Consolidation

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

(vii) Leases

Definition of a Lease

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

Lease Extension and Termination Options

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

3.2 Use of Estimates

(i) Property, Plant and Equipment

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

(ii) Leases Incremental Borrowing Rate

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

4. CURRENT AND FUTURE CHANGES IN ACCOUNTING POLICIES

The following is a list of standards/interpretations that have been issued and are effective for accounting periods commencing on or after January 1, 2021, as specified.

- *IFRS 16 – Leases – COVID-19 Related Rent Concessions beyond June 30, 2021 (Amendment to IFRS 16)*[1]
- *IAS 37 – Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Costs of Fulfilling a Contract (Amendments to IAS 37)*[2]
- *IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)*[3]
- *IAS 1 – Presentation of Financial Statements– Disclosure of Accounting Policies (Amendments to IAS 1)*[3]
- *IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates (Amendments to IAS 8)*[3]

[1] Effective for annual periods beginning on or after April 1, 2021
[2] Effective for annual periods beginning on or after January 1, 2022, with earlier application permitted.
[3] Effective for annual periods beginning on or after January 1, 2023, with earlier application permitted.

4.1 IFRS 16 – Leases – COVID-19-Related Rent Concessions beyond June 30, 2021 (Amendment to IFRS 16)

The IASB issued an extension to the practical expedient available to lessees that permits a lessee to elect not to assess whether a COVID-19 related rent concession is a lease modification. The extension allows the application of the practical expedient to reductions in lease payments originally due on or before June 30, 2022. Since LIL LP does not have any COVID-19 related rent concessions, the application of this amendment does not have an impact on LIL LP's financial statements.

4.2 IAS 37 – Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Costs of Fulfilling a Contract (Amendments to IAS 37)

The amendments to IAS 37 specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract, such as direct labour and materials, or an allocation of other costs that relate directly to fulfilling contracts, such as the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract. These amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments and are currently not applicable to LIL LP, however, may apply to future transactions.

4.3 IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

The IASB issued amendments to IAS 1 to promote consistency in applying the requirements by helping companies determine whether, in the Statement of Financial Position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The classification is based on rights that are in existence at the end of the reporting period and specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. The amendments are applied retrospectively upon adoption. Management is currently assessing the amendments and any potential impact on LIL LP's financial statements.

4.4 IAS 1 – Presentation of Financial Statements – Disclosure of Accounting Policies (Amendments to IAS 1)

The IASB issued amendments to IAS 1, which change the requirements with regard to the disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The application of these amendments is not expected to have an impact on LIL LP's financial statements.

4.5 IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates (Amendments to IAS 8)

The IASB issued amendments to IAS 8 to clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. The amendments are intended to improve the understanding of the existing requirements and therefore are not expected to have an impact on LIL LP's financial statements.

5. TRADE AND OTHER RECEIVABLES

As at December 31 (thousands of Canadian dollars)	**2021**	2020
HST receivable	**603**	1,007
Due from related parties	**133**	-
Interest receivable	**45**	37
	781	1,044

6. PROPERTY, PLANT AND EQUIPMENT

(thousands of Canadian dollars)	Project support assets	Construction in Progress	Other	Total
Cost				
Balance at January 1, 2020	6,070	4,506,832	2,535	4,515,437
Additions	-	297,701	1,571	299,272
Balance at December 31, 2020	6,070	4,804,533	4,106	4,814,709
Additions	**-**	**306,192**	**9,641**	**315,833**
Balance at December 31, 2021	**6,070**	**5,110,725**	**13,747**	**5,130,542**
Depreciation				
Balance at January 1, 2020	5,244	-	-	5,244
Depreciation	826	-	488	1,314
Balance at December 31, 2020	6,070	-	488	6,558
Depreciation	**-**	**-**	**527**	**527**
Balance at December 31, 2021	**6,070**	**-**	**1,015**	**7,085**
Carrying value				
Balance at January 1, 2020	826	4,506,832	2,535	4,510,193
Balance at December 31, 2020	-	4,804,533	3,618	4,808,151
Balance at December 31, 2021	**-**	**5,110,725**	**12,732**	**5,123,457**

Capitalized Borrowing Costs

The construction of the LIL is being financed through the issuance of long-term debt. For the year ended December 31, 2021, $123.9 million (2020 - $123.8 million) of borrowing costs were capitalized. The Partnership also capitalized borrowing costs associated with the Class A units and the Class B units of $127.0 million (2020 - $101.2 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, 2020	2,351	35,157	37,508
Additions	92	249	341
Balance at December 31, 2020	2,443	35,406	37,849
Additions	**612**	**238**	**850**
Balance at December 31, 2021	**3,055**	**35,644**	**38,699**
Amortization			
Balance at January 1, 2020	2,287	-	2,287
Amortization	109	-	109
Balance at December 31, 2020	2,396	-	2,396
Amortization	**47**	**-**	**47**
Balance at December 31, 2021	**2,443**	**-**	**2,443**
Carrying value			
Balance at January 1, 2020	64	35,157	35,221
Balance at December 31, 2020	47	35,406	35,453
Balance at December 31, 2021	**612**	**35,644**	**36,256**

8. TRADE AND OTHER PAYABLES

As at December 31 (thousands of Canadian dollars)	**2021**	2020
Trade payables and accruals	**25,914**	22,968
Accrued interest	**12,876**	12,970
Due to related parties	**8,788**	14,472
Other payables	**3,041**	3,280
	50,619	53,690

9. LONG-TERM DEBT

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

As at (thousands of Canadian dollars)	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	**2021**	2020
Tranche A	725,000	3.76	2013	2033	**725,179**	725,194
Tranche B	600,000	3.86	2013	2045	**600,085**	600,089
Tranche C	1,075,000	3.85	2013	2053	**1,075,180**	1,075,186
Tranche 4-10	73,500	1.36-1.75	2017	2022-2025	**73,505**	94,509
Tranche 11-20	105,000	1.84-2.37	2017	2025-2030	**105,018**	105,022
Tranche 21-30	105,000	2.41-2.64	2017	2030-2035	**105,041**	105,045
Tranche 31-40	105,000	2.66-2.80	2017	2035-2040	**105,090**	105,096
Tranche 41-50	105,000	2.81-2.86	2017	2040-2045	**105,097**	105,102
Tranche 51-60	105,000	2.84-2.86	2017	2045-2050	**105,125**	105,130
Tranche 61-70	105,000	2.85	2017	2050-2055	**105,184**	105,190
Tranche 71-74	315,000	2.85	2017	2055-2057	**315,600**	315,615
Total	3,418,500				**3,420,104**	3,441,178
Less: maturities of debt within one year					**(21,000)**	(21,000)
					3,399,104	3,420,178

LIL LP, LIL Opco, the IT, the LIL Funding Trust and the Collateral Agent have entered into the IT PFA. Under the terms and conditions of the IT PFA, the LIL Funding Trust agreed to provide two credit facilities totaling $3.45 billion to the IT, which itself has on-lent this amount to the Partnership under the terms and conditions of the LIL PFA. As at December 31, 2021 and 2020, both credit facilities were fully utilized by the Partnership.

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

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

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

(thousands of Canadian dollars)	2022	2023	2024	2025	2026
Sinking fund instalments	63,043	63,043	63,043	63,043	63,043

10. DEFERRED REVENUE

LIL Opco has the option to prepay rent in accordance with the LIL Lease. As at December 31, 2021, LIL Opco had a prepayment balance of $91.7 million (2020 - $71.4 million) to the Partnership, of which $72.6 million is current (2020 - $nil). The Partnership has recognized these prepayments as deferred revenue which will be amortized to income once the LIL is in-service.

11. LIMITED PARTNERSHIP UNITS

The Partnership has four classes of units; Class A, Class B, Class C and the General Partner unit. The Class A and B unit holders and the General Partner are each entitled to voting rights, mandatory distributions and allocations of profit and loss as provided by the terms of the Partnership Agreement. The Class C unit holder is not entitled to voting rights, distributions or allocations of profit and loss, but may share in the remaining assets of the Partnership in liquidation after full recovery of the outstanding capital accounts of the Class A and Class B units.

Debt and equity instruments issued by the Partnership are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. The substance of the Class A and Class B units represent a financial liability and are measured at amortized cost using the effective interest method.

11.1 Class A Limited Partnership Units

As at December 31 (thousands of Canadian dollars)	**Units**	**2021**	Units	2020
Class A limited partnership units, beginning of the year	**75**	**749,390**	75	591,083
Contributions	**-**	**319,287**	-	106,418
Repayment	**-**	**(2,549)**	-	-
Accrued interest	**-**	**73,668**	-	51,889
Class A limited partnership units, end of the year	**75**	**1,139,796**	75	749,390

11.2 Class B Limited Partnership Units

As at December 31 (thousands of Canadian dollars)	**Units**	**2021**	Units	2020
Class B limited partnership units, beginning of the year	**25**	**627,669**	25	578,368
Accrued interest	**-**	**53,352**	-	49,301
Class B limited partnership units, end of the year	**25**	**681,021**	25	627,669

12. NET FINANCE INCOME

For the year ended December 31 (thousands of Canadian dollars)	**2021**	2020
Finance income		
Other interest	**684**	1,147
	684	1,147
Finance expense		
Interest and fees on long-term debt	**124,020**	124,306
Interest on limited partnership units	**127,020**	101,190
Other interest	**121**	125
	251,161	225,621
Interest capitalized during construction	**(250,911)**	(225,011)
	250	610
Net finance income	**434**	537

13. OPERATING COSTS

For the year ended December 31 (thousands of Canadian dollars)	**2021**	2020
Salaries and benefits	**2,605**	1,854
Maintenance and materials	**389**	9
Training	**237**	30
Professional fees	**85**	94
Cost recoveries and other	**(967)**	(307)
	2,349	1,680

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

14.1 Fair Value

The estimated fair values of financial instruments as at December 31, 2021 and 2020 are based on relevant market prices and information available at the time. Fair value estimates are based on valuation techniques which are significantly affected by the assumptions used including the amount and timing of future cash flows and discount rates reflecting various degrees of risk. As such, the fair value estimates below are not necessarily indicative of the amounts that LIL LP might receive or incur in actual market transactions.

As a significant number of LIL LP's assets and liabilities do not meet the definition of a financial instrument, the fair value estimates below do not reflect the fair value of LIL LP 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 Partnership 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, 2021 and 2020.

	Level	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
As at (thousands of Canadian dollars)		**December 31, 2021**		December 31, 2020	
Financial liabilities					
Long-term debt including amount due within one year	**2**	**3,420,104**	**4,135,994**	3,441,178	4,573,123
Class A limited partnership units	**3**	**1,139,796**	**1,139,796**	749,390	749,390
Class B limited partnership units	**3**	**681,021**	**681,021**	627,669	627,669

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

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

The Class A and 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% (2020 - 8.5%) is defined in the Newfoundland and Labrador Development Agreement as the 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 Partnership'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 A limited partnership units	(43,758)	41,561
Class B limited partnership units	(40,585)	38,537
Total	(84,343)	80,098

14.2 Risk Management

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

Credit Risk

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

Liquidity Risk

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

The following are the contractual maturities of the Partnership's financial liabilities, including principal, sinking fund and interest as at December 31, 2021:

(thousands of Canadian dollars)	< 1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	50,619	-	-	-	50,619
Long-term debt (including interest and sinking fund)	207,747	414,232	412,375	5,332,702	6,367,056
Unit A partnership units	53,804	199,029	190,834	4,884,024	5,327,691
Unit B partnership units	45,377	167,857	160,945	4,119,083	4,493,262
	357,547	781,118	764,154	14,335,809	16,238,628

Market Risk

In the course of carrying out its operating, financing and investing activities, the Partnership is exposed to possible market price movements that could impact expected future cash flow and the carrying value of certain financial assets and liabilities.

Interest Rates

Changes in prevailing interest rates will impact the fair value of financial assets and liabilities. Expected future cash flows from these assets and liabilities are also impacted in certain circumstances.

Foreign Currency and Commodity Exposure

The Partnership does not hold any financial instruments whose value would vary due to changes in a commodity price or whose value would materially vary due to fluctuations in foreign currency exchange rates. Cash flow exposure to foreign exchange risk arises primarily through investing activities, most notably US dollar denominated capital expenditures, and regular procurement activities. Exposure arising from capital expenditures is evaluated on a case by case basis. Where possible, contracts are denominated in CAD.

15. RELATED PARTY TRANSACTIONS

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

Related Party	Relationship
LIL Holdco	Limited Partner holding 75 Class A limited partnership units of LIL LP
Emera NL	Limited Partner holding 25 Class B limited partnership units of LIL LP
Nalcor	100% shareholder of LIL Holdco
Hydro	Wholly-owned subsidiary of Nalcor
Labrador Transmission Corporation (Labrador Transco)	Wholly-owned subsidiary of Nalcor
LIL GP	Wholly-owned subsidiary of Nalcor, general partner of LIL LP
LIL Opco	Wholly-owned subsidiary of Nalcor
Lower Churchill Management Corporation (LCMC)	Wholly-owned subsidiary of Nalcor
Muskrat Falls Corporation (Muskrat Falls)	Wholly-owned subsidiary of Nalcor

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

(a) As at December 31, 2021, LIL LP has related party payables totaling $8.8 million (2020 - $14.5 million) with Nalcor, LCMC, Muskrat Falls, and Labrador Transco and related party receivables totaling $0.1 million (2020 - $nil) with Labrador Transco. These payables and receivables consist of various intercompany operating and construction costs.

(b) For the year ended December 31, 2021, LIL LP was charged $10.8 million (2020 – $10.1 million) by Nalcor related to intercompany salary costs and administrative services.

(c) For the year ended December 31, 2021, LIL LP was charged $2.0 million (2020 – $2.6 million) by LCMC related to electricity usage charged by Hydro.

(d) For the year ended December 31, 2021, LIL LP received $319.3 million (2020 - $106.4 million) in Class A limited partnership contributions from LIL Holdco.

(e) For the year ended December 31, 2021, LIL LP paid $2.5 million (2020 – $nil) to LIL Holdco relating to interest earned.

(f) For the year ended December 31, 2021, LIL Opco has prepaid $20.3 million (2020 - $19.1 million) in rent to LIL LP for future services of the LIL.

16. COMMITMENTS AND CONTINGENCIES

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

(b) As part of the LIL PFA, the Partnership has pledged its current and future assets as security to the Collateral Agent. Under the terms and conditions of the IT PFA the Partnership has also provided a guarantee of the IT's payment obligations to the Collateral Agent for the benefit of the LIL Funding Trust.

(c) 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 during the commissioning period and provide such services as agreed to ensure safe and reliable transmission of electricity.

(d) LIL LP is subject to legal claims with respect to construction and other various matters. For some legal claims, it is not possible at this time to predict with any certainty the outcome of such litigation. Should these claims result in an unfavourable outcome for the Partnership, they may have a significant adverse effect on the Partnership's financial position.

(e) Outstanding commitments for capital projects total approximately $12.4 million as at December 31, 2021 (2020 - $22.3 million).

17. CAPITAL MANAGEMENT

The capital structure of the Partnership is comprised of partner capital (issued units, cash calls and deficit) and long-term debt. The capital structure is adjusted through the amount of distributions paid to the Partners as well as capital contributions.

The Partnership's objective when managing capital is to fund the construction and ongoing sustaining capital requirements of the LIL while providing its partners a required return. The Partnership's requirements for capital in the future are expected to increase, coincident with the development of the LIL. The focus of the capital management policy is to provide flexibility to ensure cash continues to be available to satisfy capital requirements. Managing cash calls from the limited partners is a key aspect of ensuring the availability of funding to develop the LIL. The Province of Newfoundland and Labrador has provided guarantees to ensure partner contributions in relation to the construction of the LIL. These guarantees will ensure sufficient funds are available to finance remaining construction costs.

18. SUPPLEMENTARY CASH FLOW INFORMATION

For the year ended December 31 (thousands of Canadian dollars)	**2021**	2020
Trade and other receivables	**271**	4,219
Inventories	**(536)**	(320)
Trade and other payables	**(2,978)**	6,354
Changes in non-cash working capital balances	**(3,243)**	10,253
Related to:		
Operating activities	**-**	20
Investing activities	**(3,243)**	10,233
	(3,243)	10,253