

**LOWER CHURCHILL PROJECT COMPANIES  
COMBINED FINANCIAL STATEMENTS  
December 31, 2022**

## Independent Auditor's Report

To the Directors of Nalcor Energy

We have audited the accompanying combined financial statements of the Lower Churchill Project Companies (the “Company”), which comprise the combined statement of financial position as at December 31, 2022 and the combined statements of profit (loss) and comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies 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, 2022, 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 21, 2023

**LOWER CHURCHILL PROJECT COMPANIES  
COMBINED STATEMENT OF FINANCIAL POSITION**

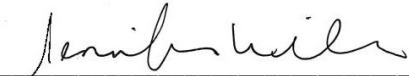
<i>As at December 31 (thousands of Canadian dollars)</i>	Notes	2022	2021
<b>ASSETS</b>			
Current assets			
Cash		7,539	10,208
Restricted cash		1,307,276	812,744
Trade and other receivables	5	34,613	2,942
Short-term investments	7	41,199	-
Contract asset	8	165,466	17,573
Other current assets		4,850	5,588
<b>Total current assets</b>		<b>1,560,943</b>	<b>849,055</b>
Non-current assets			
Property, plant and equipment	6	12,447,388	12,206,101
Investments	7	240,393	-
Intangible assets	9	36,896	36,735
Other long-term asset	19	3,126	3,014
Right-of-use assets		2,451	2,594
<b>Total assets</b>		<b>14,291,197</b>	<b>13,097,499</b>
<b>LIABILITIES AND EQUITY</b>			
Current liabilities			
Trade and other payables	10	112,767	227,637
Current portion of long-term debt	11	62,199	61,600
Current portion of lease liabilities		92	115
Current portion of deferred revenue	12	112,900	72,600
Related party loan payable	19	29,665	53,220
<b>Total current liabilities</b>		<b>317,623</b>	<b>415,172</b>
Non-current liabilities			
Long-term debt	11	8,687,976	7,750,352
Deferred revenue	12	-	19,100
Class B limited partnership units	13	738,908	681,021
Lease liabilities		2,508	2,600
Contributions		10	10
<b>Total liabilities</b>		<b>9,747,025</b>	<b>8,868,255</b>
Shareholder's equity			
Share capital	14	1,891,956	4
Shareholder contributions		2,607,049	4,347,711
Reserves		(55,376)	(59,040)
Retained earnings (deficit)		100,543	(59,431)
<b>Total equity</b>		<b>4,544,172</b>	<b>4,229,244</b>
<b>Total liabilities and equity</b>		<b>14,291,197</b>	<b>13,097,499</b>

Commitments and contingencies (Note 20)

See accompanying notes

On behalf of the Board:

  
\_\_\_\_\_  
DIRECTOR

  
\_\_\_\_\_  
DIRECTOR

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

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	Notes	<b>2022</b>	2021
Revenue	19	<b>491,263</b>	67,146
Other revenue	19	<b>390</b>	390
<b>Total revenue</b>		<b>491,653</b>	67,536
Power purchased	19	<b>5,893</b>	3,957
Operating costs	15	<b>36,401</b>	21,146
Transmission expense	19	<b>8,678</b>	1,131
Depreciation and amortization		<b>290</b>	39
Net finance expense	16	<b>138,641</b>	37,372
Other expense	17	<b>19,752</b>	4,222
<b>Total expenses</b>		<b>209,655</b>	67,867
<b>Profit (loss) for the year</b>		<b>281,998</b>	(331)
<b>Distribution of income</b>		<b>(10)</b>	(10)
Other comprehensive income			
Total items that may or have been reclassified for profit or loss:			
Reclassification adjustment related to:			
Cash flow hedges recognized in profit or loss		<b>3,664</b>	3,692
<b>Other comprehensive income for the year</b>		<b>3,664</b>	3,692
<b>Total comprehensive income for the year</b>		<b>285,652</b>	3,351

*See accompanying notes*

**LOWER CHURCHILL PROJECT COMPANIES  
COMBINED STATEMENT OF CHANGES IN EQUITY**

<i>(thousands of Canadian dollars)</i>	Notes	Share Capital	Shareholder Contribution	Reserves	Retained Earnings (Deficit)	Total
<b>Balance at January 1, 2022</b>		<b>4</b>	<b>4,347,711</b>	<b>(59,040)</b>	<b>(59,431)</b>	<b>4,229,244</b>
Profit for the year		-	-	-	281,998	281,998
Distribution of income		-	-	-	(10)	(10)
Other comprehensive income		-	-	3,664	-	3,664
<b>Total comprehensive income for the year</b>		-	-	<b>3,664</b>	<b>281,988</b>	<b>285,652</b>
Shareholder contributions		-	215,585	-	-	215,585
Capital restructuring	14	1,956,247	(1,956,247)	-	-	-
Share redemption	14	(64,295)	-	-	-	(64,295)
Dividends	14	-	-	-	(47,246)	(47,246)
Related party transaction	19	-	-	-	(74,768)	(74,768)
<b>Balance at December 31, 2022</b>		<b>1,891,956</b>	<b>2,607,049</b>	<b>(55,376)</b>	<b>100,543</b>	<b>4,544,172</b>
Balance at January 1, 2021		4	3,880,790	(62,732)	(50,500)	3,767,562
Loss for the year		-	-	-	(331)	(331)
Distribution of income		-	-	-	(10)	(10)
Other comprehensive income		-	-	3,692	-	3,692
<b>Total comprehensive income for the year</b>		-	-	<b>3,692</b>	<b>(341)</b>	<b>3,351</b>
Shareholder contributions		-	507,201	-	-	507,201
Distribution of contributed capital		-	(40,280)	-	-	(40,280)
Related party transaction	19	-	-	-	(8,590)	(8,590)
<b>Balance at December 31, 2021</b>		<b>4</b>	<b>4,347,711</b>	<b>(59,040)</b>	<b>(59,431)</b>	<b>4,229,244</b>

See accompanying notes

## LOWER CHURCHILL PROJECT COMPANIES COMBINED STATEMENT OF CASH FLOWS

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	Notes	2022	2021
<b>Operating activities</b>			
Profit (loss) for the year		<b>281,998</b>	(331)
Adjustments to reconcile profit (loss) to cash used in operating activities:			
Depreciation and amortization		<b>3,954</b>	1,004
Revenue	19	<b>(74,768)</b>	(8,590)
Power purchased	19	<b>5,893</b>	3,957
Finance income	16	<b>(37,530)</b>	(4,377)
Finance expense	16	<b>176,171</b>	41,749
		<b>355,718</b>	33,412
Changes in non-cash working capital balances	22	<b>(11,510)</b>	22,146
Increase in contract asset		<b>(147,893)</b>	(17,573)
Increase in other long-term asset		<b>(112)</b>	(3,014)
Interest received		<b>32,127</b>	4,057
Interest paid		<b>(290,579)</b>	(278,811)
<b>Net cash used in operating activities</b>		<b>(62,249)</b>	(239,783)
<b>Investing activities</b>			
Increase in investments	7	<b>(281,592)</b>	-
Additions to property, plant and equipment		<b>(74,593)</b>	(257,359)
Additions to intangible assets	9	<b>(236)</b>	(850)
Change in advances		<b>1,222</b>	(150)
Changes in non-cash working capital balances	22	<b>(124,798)</b>	(15,863)
<b>Net cash used in investing activities</b>		<b>(479,997)</b>	(274,222)
<b>Financing activities</b>			
Change in restricted cash		<b>(494,532)</b>	46,954
Change in related party loan payable		<b>(23,399)</b>	52,931
Repayment of long-term debt		<b>(61,600)</b>	(61,069)
Proceeds from long-term debt		<b>1,000,000</b>	-
Share redemption	14	<b>(64,295)</b>	-
Dividends	14	<b>(47,246)</b>	-
Increase in deferred revenue		<b>21,200</b>	20,300
Shareholder contributions		<b>209,692</b>	503,244
Distribution of contributed capital		<b>-</b>	(40,280)
Distribution of income		<b>(10)</b>	(10)
Repayment of lease liabilities		<b>(233)</b>	(233)
<b>Net cash provided from financing activities</b>		<b>539,577</b>	521,837
<b>Net (decrease) increase in cash</b>		<b>(2,669)</b>	7,832
Cash, beginning of the year		<b>10,208</b>	2,376
Cash, end of the year		<b>7,539</b>	10,208

See accompanying notes



## **LOWER CHURCHILL PROJECT COMPANIES**

### **NOTES TO THE COMBINED FINANCIAL STATEMENTS**

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#### **1. NATURE AND DESCRIPTION OF THE PROJECT**

These annual audited combined financial statements (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 (the Province). 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 hydroelectric generating facility (MF 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 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 MF 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 Limited Partnership (the Partnership or LIL LP) has entered into the LIL Lease and the Transmission Funding Agreement (TFA) with Labrador-Island Link Operating Corporation (LIL Opco) and Hydro. 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 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.

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 the Project and do not include other assets, liabilities, revenues, and expenses of the partners of LIL LP. These financial statements were approved by Nalcor Energy's (Nalcor) Board of Directors on March 10, 2023.

##### **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.

## LOWER CHURCHILL PROJECT COMPANIES

### NOTES TO THE COMBINED FINANCIAL STATEMENTS

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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 Holdco uses judgment in assessing many factors to determine control of LIL LP and the IT, including its exposure to variability in the IT's investments and its role in the formation of the entities. 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 LIL Holdco does not control the Labrador-Island Link Funding Trust (LIL Funding Trust) and has not included the results of the funding trusts in these financial statements.

#### 2.3 Basis of Combination

The Project includes the financial statements of LIL Holdco, Muskrat Falls, Labrador Transco and LCMC. Material intercompany transactions have been eliminated.

#### 2.4 Cash

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

#### 2.5 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, financing, operating, maintenance and sustaining costs related to the LIL, LTA and MF 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 Administrator of the IT and funds held in trust by solicitors of the Project.

#### 2.6 Short-term Investments

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

#### 2.7 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.

#### 2.8 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 the Project's accounting policy outlined in Note 2.10. 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, the Project 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 of these assets 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	4 to 7 years
Hydroelectric generation plant	15 to 100 years
Transmission and terminals	15 to 75 years
Service facilities and other	5 to 100 years

## **LOWER CHURCHILL PROJECT COMPANIES**

### **NOTES TO THE COMBINED FINANCIAL STATEMENTS**

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Hydroelectric generation plant includes the powerhouse, turbines and generators, governors and exciters, and auxiliary systems, as well as water conveying and control structures, including dams, tailraces, spillway, penstocks, draft tube and intake structures.

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.

The carrying amount of a replaced asset is derecognized when replaced. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recorded in other expense.

#### **2.9 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. Assets under development are amortized over the term of the GIA/PPA and TFA. 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.

#### **2.10 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 in the period in which they are incurred.

#### **2.11 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, the Project 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 Combined Statement of Profit (Loss) and Comprehensive Income.

**LOWER CHURCHILL PROJECT COMPANIES**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS**

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**2.12 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 remeasured at each Combined Statement of Financial Position date using the current discount rate.

**2.13 Revenue Recognition**

The Project recognizes revenue from contracts with customers related to the sale of electricity, transmission interconnection services and 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 the Project satisfies its performance obligations 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.

**2.14 Leasing**

Lessee Accounting

The Project assesses whether a contract is or contains a lease, at inception of a contract. The Project 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, the Project 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.

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, the Project 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 the Project changes its assessment of whether purchase, renewal or termination options will be exercised. The Project 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.

## LOWER CHURCHILL PROJECT COMPANIES

### NOTES TO THE COMBINED FINANCIAL STATEMENTS

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Whenever the Project 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 the Project expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of the lease.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in operating costs in the period in which the event or condition that triggers those payments occurs.

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

#### **2.15 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 as other expense.

#### **2.16 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. LCMC, Muskrat Falls, Labrador Transco, and LIL Holdco are exempt from paying income taxes under Paragraph 149(1) (d.2) of the Income Tax Act.

#### **2.17 Financial Instruments**

##### Classification and Initial Measurement

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.

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.

The Project's financial assets at amortized cost include cash, restricted cash, trade and other receivables and investments (including short-term).

## LOWER CHURCHILL PROJECT COMPANIES

### NOTES TO THE COMBINED FINANCIAL STATEMENTS

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#### Financial Liabilities at Amortized Cost

The Project 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.

The Project's financial liabilities at amortized cost include trade and other payables, Class B limited partnership units, long-term debt and related party loan payable.

#### Derecognition of Financial Instruments

The Project 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.

The Project 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

The Project 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.

The Project always recognizes lifetime ECL for trade and other receivables. The ECL 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 consist of cash and restricted cash.

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

#### Hedges

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

## LOWER CHURCHILL PROJECT COMPANIES

### NOTES TO THE COMBINED FINANCIAL STATEMENTS

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The Project does not hold any fair value hedges.

### 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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.

#### 3.1 Use of Judgments

(i) Asset Impairment and Reversals

The Project 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) Property, Plant and Equipment

The Project's accounting policy relating to property, plant and equipment is described in Note 2.8. 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 the Project'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 electricity sales is allocated between energy and capacity components based on observable evidence of how efficiently island rate payers use the hydroelectric system. Energy is recognized as units are delivered whereas capacity and revenue related to interconnection services and 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 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.

(v) Determination of CGUs

The Project's accounting policy relating to impairment of non-financial assets is described in Note 2.11. In applying this policy, the Project 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.

## LOWER CHURCHILL PROJECT COMPANIES

### NOTES TO THE COMBINED FINANCIAL STATEMENTS

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(vii) Leases

Definition of a Lease

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

Lease Extension and Termination Options

In determining the lease term, the Project 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 Project's assets. The useful lives of property, plant and equipment are verified by independent specialists and reviewed annually by the Project. The useful lives are Management's best estimate of the service lives of these assets. Changes to these lives could materially affect the amount of depreciation recorded.

(ii) Leases Incremental Borrowing Rate

The Project 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 amendments that have been issued and are effective for accounting periods commencing on or after January 1, 2022, as specified.

- *IAS 37 – Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Costs of Fulfilling a Contract (Amendments to IAS 37)*<sup>1</sup>
- *IAS 1 – Presentation of Financial Statements – Disclosure of Accounting Policies (Amendments to IAS 1)*<sup>2</sup>
- *IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates (Amendments to IAS 8)*<sup>2</sup>
- *IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)*<sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after January 1, 2022.

<sup>2</sup> Effective for annual periods beginning on or after January 1, 2023, with earlier application permitted.

<sup>3</sup> These amendments were originally effective for annual periods beginning on or after January 1, 2023, however, in 2022 the IASB deferred the effective date to January 1, 2024, with earlier application permitted.



**LOWER CHURCHILL PROJECT COMPANIES**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS**

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**4.1 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 the Project however, may apply to future transactions.

**4.2 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. Management does not expect this change will have a material impact on the financial statements.

**4.3 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 will not have an impact on the Project’s financial statements.

**4.4 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. Additional information was added to clarify that only covenants with which an entity is required to comply on or before the reporting date affect the classification of a liability as current or non-current. In addition, an entity has to disclose information in the notes that enables users of financial statements to understand the risk that non-current liabilities with covenants could become repayable within twelve months. The amendments are applied retrospectively upon adoption. The application of these amendments is not expected to have a material impact on the Projects financial statements.

**5. TRADE AND OTHER RECEIVABLES**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2022</b>	2021
Due from related parties	<b>22,361</b>	373
Interest receivable	<b>5,510</b>	287
Insurance receivable	<b>3,707</b>	-
HST receivable	<b>2,856</b>	2,282
Trade receivables	<b>179</b>	-
	<b>34,613</b>	2,942

**LOWER CHURCHILL PROJECT COMPANIES**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS**

**6. PROPERTY, PLANT AND EQUIPMENT**

<i>(thousands of Canadian dollars)</i>	Project Support Assets	Construction in Progress	Other	Total
<b>Cost</b>				
Balance at January 1, 2021	211,223	11,650,263	5,293	11,866,779
Additions	-	540,865	10,910	551,775
Balance at December 31, 2021	211,223	12,191,128	16,203	12,418,554
<b>Additions</b>	-	<b>240,975</b>	<b>5,078</b>	<b>246,053</b>
<b>Other adjustments</b>	-	<b>(3,796)</b>	-	<b>(3,796)</b>
<b>Balance at December 31, 2022</b>	<b>211,223</b>	<b>12,428,307</b>	<b>21,281</b>	<b>12,660,811</b>
<b>Depreciation</b>				
Balance at January 1, 2021	211,223	-	542	211,765
Depreciation	-	-	688	688
Balance at December 31, 2021	211,223	-	1,230	212,453
<b>Depreciation</b>	-	-	<b>970</b>	<b>970</b>
<b>Balance at December 31, 2022</b>	<b>211,223</b>	-	<b>2,200</b>	<b>213,423</b>
<b>Carrying value</b>				
Balance at January 1, 2021	-	11,650,263	4,751	11,655,014
Balance at December 31, 2021	-	12,191,128	14,973	12,206,101
<b>Balance at December 31, 2022</b>	-	<b>12,428,307</b>	<b>19,081</b>	<b>12,447,388</b>

Capitalized Borrowing Costs

The construction of the LIL, LTA and MF Plant is being financed through the issuance of long-term debt and contributed capital. For the year ended December 31, 2022, \$108.9 million (2021 - \$237.2 million) of borrowing costs were capitalized. The Project also capitalized borrowing costs associated with the Class B units of \$57.9 million (2021 - \$53.4 million) as non-cash additions to property, plant and equipment.

**7. INVESTMENTS**

<i>As at December 31 (thousands of Canadian dollars)</i>	Year of Maturity	<b>2022</b>	2021
Amortizing Fixed Rate Deposit Notes with interest paid at a rate of 3.745% per annum.	2023- 2029	<b>281,592</b>	-
Less: redemptions to be received within one year		<b>(41,199)</b>	-
		<b>240,393</b>	-

On March 31, 2022, Muskrat Falls and Labrador Transco jointly purchased structured deposit notes using the proceeds from issued long-term debt. The investments are restricted in nature and subject to the provisions contained within the MF/LTA PFA.

**LOWER CHURCHILL PROJECT COMPANIES**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS**

**8. CONTRACT ASSET**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2022</b>	2021
Contract asset, beginning of the year	<b>17,573</b>	-
Additions	<b>389,444</b>	57,450
Less: Receipts	<b>(241,551)</b>	(39,877)
Contract asset, end of the year	<b>165,466</b>	17,573

The contract asset represents the timing difference between the satisfaction of performance obligations to Hydro under the PPA and the timing of commercial payments.

**9. INTANGIBLE ASSETS**

<i>(thousands of Canadian dollars)</i>	Computer Software	Assets Under Development	Total
<b>Cost</b>			
Balance at January 1, 2021	6,903	35,886	42,789
Additions	612	238	850
Balance at December 31, 2021	7,515	36,124	43,639
<b>Additions</b>	<b>-</b>	<b>236</b>	<b>236</b>
<b>Balance at December 31, 2022</b>	<b>7,515</b>	<b>36,360</b>	<b>43,875</b>
<b>Amortization</b>			
Balance at January 1, 2021	6,640	-	6,640
Amortization	263	1	264
Balance at December 31, 2021	6,903	1	6,904
<b>Amortization</b>	<b>66</b>	<b>9</b>	<b>75</b>
<b>Balance at December 31, 2022</b>	<b>6,969</b>	<b>10</b>	<b>6,979</b>
<b>Carrying value</b>			
Balance at January 1, 2021	263	35,886	36,149
Balance at December 31, 2021	612	36,123	36,735
<b>Balance at December 31, 2022</b>	<b>546</b>	<b>36,350</b>	<b>36,896</b>

**10. TRADE AND OTHER PAYABLES**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2022</b>	2021
Trade payables and accruals	<b>52,653</b>	171,110
Due to related parties	<b>31,603</b>	22,879
Accrued interest	<b>24,722</b>	30,216
HST payable	<b>3,789</b>	3,432
	<b>112,767</b>	227,637

**LOWER CHURCHILL PROJECT COMPANIES**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS**

**11. LONG-TERM DEBT**

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

<i>(thousands of Canadian dollars)</i>	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	<b>2022</b>	2021
LIL LP						
Tranche A	725,000	3.76	2013	2033	<b>725,163</b>	725,179
Tranche B	600,000	3.86	2013	2045	<b>600,082</b>	600,085
Tranche C	1,075,000	3.85	2013	2053	<b>1,075,175</b>	1,075,180
Tranche 6-10	52,500	1.52-1.75	2017	2023-2025	<b>52,503</b>	73,505
Tranche 11-20	105,000	1.84-2.37	2017	2025-2030	<b>105,015</b>	105,018
Tranche 21-30	105,000	2.41-2.64	2017	2030-2035	<b>105,037</b>	105,041
Tranche 31-40	105,000	2.66-2.80	2017	2035-2040	<b>105,085</b>	105,090
Tranche 41-50	105,000	2.81-2.86	2017	2040-2045	<b>105,092</b>	105,097
Tranche 51-60	105,000	2.84-2.86	2017	2045-2050	<b>105,121</b>	105,125
Tranche 61-70	105,000	2.85	2017	2050-2055	<b>105,178</b>	105,184
Tranche 71-74	315,000	2.85	2017	2055-2057	<b>315,581</b>	315,600
Muskrat Falls/Labrador Transco						
Tranche A	650,000	3.63	2013	2029	<b>650,097</b>	650,112
Tranche B	675,000	3.83	2013	2037	<b>675,067</b>	675,071
Tranche C	1,275,000	3.86	2013	2048	<b>1,275,189</b>	1,275,196
Tranche 6-10	104,183	1.52-1.75	2017	2023-2025	<b>104,188</b>	144,793
Tranche 11-20	224,283	1.84-2.37	2017	2025-2030	<b>224,316</b>	224,322
Tranche 21-30	252,595	2.41-2.64	2017	2030-2035	<b>252,684</b>	252,693
Tranche 31-40	288,185	2.66-2.80	2017	2035-2040	<b>288,420</b>	288,435
Tranche 41-50	331,037	2.81-2.86	2017	2040-2045	<b>331,327</b>	331,341
Tranche 51-60	381,084	2.84-2.86	2017	2045-2050	<b>381,527</b>	381,545
Tranche 61-64	168,053	2.85	2017	2050-2052	<b>168,328</b>	168,340
Tranche A-T	500,000	3.35-3.38	2022	2037-2047	<b>500,000</b>	-
Tranche U	500,000	3.38	2022	2057	<b>500,000</b>	-
<b>Total</b>	<b>8,746,920</b>				<b>8,750,175</b>	<b>7,811,952</b>
Less: maturities of debt within one year					<b>(62,199)</b>	<b>(61,600)</b>
					<b>8,687,976</b>	<b>7,750,352</b>

LIL LP, LIL Opco, the IT, the LIL Funding Trust and the Collateral Agent have entered into the IT Project Finance Agreement (IT PFA). Under the terms and conditions of the IT PFA, the LIL Funding Trust provided two credit facilities totaling \$3.45 billion, which itself has on-lent this amount to the Partnership under the terms and conditions of the LIL PFA.

Muskrat Falls, MF/LTA Funding Trust, Labrador Transco and the Collateral Agent have entered into the MF/LTA PFA. Under the terms and conditions of the MF/LTA PFA, the MF/LTA Funding Trust provided three credit facilities totaling \$5.45 billion.

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 (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 and the MF/LTA Funding Trust benefits from a direct, absolute, unconditional and irrevocable guarantee from Canada, and thereby carries its full faith and credit (AAA rating or equivalent).

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.

**LOWER CHURCHILL PROJECT COMPANIES**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS**

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

<i>(thousands of Canadian dollars)</i>	2023	2024	2025	2026	2027
Sinking fund instalments	63,043	63,043	63,043	63,043	63,043

**12. 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 \$112.9 million (2021 - \$91.7 million) to the Partnership, of which all is current (2021 - \$72.6 million). The Partnership has recognized these prepayments as deferred revenue which will be amortized to income once the LIL is in-service.

**13. 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.

**Class B Limited Partnership Units**

<i>As at December 31 (thousands of Canadian dollars)</i>	Units	2022	Units	2021
Class B limited partnership units, beginning of the year	25	681,021	25	627,669
Accrued interest	-	57,887	-	53,352
Class B limited partnership units, end of the year	25	738,908	25	681,021

**14. SHAREHOLDER'S EQUITY**

**14.1 Share Capital**

<i>As at December 31 (thousands of Canadian dollars)</i>	2022	2021
Class A preferred shares without nominal or par value		
Authorized – unlimited		
Issued - fully paid and outstanding - 1,891,952,578 (2021 – nil)	1,891,952	-
Class A common shares without nominal or par value		
Authorized – unlimited		
Issued - fully paid and outstanding - 2,000 (2021 – nil)	2	-
Common shares without nominal or par value		
Authorized – unlimited		
Issued - fully paid and outstanding – 200 (2021 – 400)	2	4
	<b>1,891,956</b>	<b>4</b>

On March 25, 2022, Muskrat Falls and Labrador Transco amended their Articles of Incorporation to create new capital structures. Included in the new capital structures, previously held common shares were designated Class A common shares and Class A preferred shares increased by \$1,956.2 million. On May 13, 2022, 64.3 million Class A preferred shares of \$64.3 million (2021 - \$nil) were redeemed.

**LOWER CHURCHILL PROJECT COMPANIES**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS**

**14.2 Dividends**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2022</b>	2021
Declared and paid during the year		
Preferred dividend for current year (3% coupon rate)	<b>43,955</b>	-
Common dividend for current year	<b>3,291</b>	-
	<b>47,246</b>	-

**15. OPERATING COSTS**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2022</b>	2021
Salaries and benefits	<b>10,304</b>	9,386
Professional services	<b>9,892</b>	4,094
Maintenance and materials	<b>8,096</b>	5,810
Other operating costs	<b>4,694</b>	1,549
Insurance	<b>3,415</b>	307
	<b>36,401</b>	21,146

**16. NET FINANCE EXPENSE**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2022</b>	2021
Finance income		
Interest on restricted cash	<b>28,671</b>	4,104
Interest on investments	<b>8,589</b>	-
Other interest	<b>270</b>	273
	<b>37,530</b>	4,377
Finance expense		
Interest and fees on long-term debt	<b>280,694</b>	278,511
Interest on Class B limited partnership units	<b>57,887</b>	53,352
Other interest	<b>4,354</b>	489
	<b>342,935</b>	332,352
Interest capitalized during construction	<b>(166,764)</b>	(290,603)
	<b>176,171</b>	41,749
Net finance expense	<b>138,641</b>	37,372

**17. OTHER EXPENSE**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2022</b>	2021
Rental and royalty	<b>12,860</b>	2,660
Other	<b>6,892</b>	1,562
Other expense	<b>19,752</b>	4,222

**LOWER CHURCHILL PROJECT COMPANIES**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS**

**18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

**18.1 Fair Value**

The estimated fair values of financial instruments as at December 31, 2022 and 2021 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, 2022 and 2021.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		December 31, 2022		December 31, 2021	
<i>As at (thousands of Canadian dollars)</i>					
Financial assets					
Investments, including short-term	2	281,592	263,968	-	-
Financial liabilities					
Long-term debt including amount due within one year	2	8,750,175	7,893,084	7,811,952	9,232,659
Class B limited partnership units	3	738,908	738,908	681,021	681,021

The fair values of cash, restricted cash, trade and other receivables, trade and other payables, and related party loan payable 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.

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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% (2021 - 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 Project's Level 3 financial liabilities given a one percent change in the discount rate while holding other variables constant:

<i>(thousands of Canadian dollars)</i>	1% increase in discount rate	1% decrease in discount rate
Class B limited partnership units	(51,251)	48,237

**18.2 Risk Management**

The Project is exposed to certain credit, liquidity and market risks through its operating, financing and investing activities. Financial risk is managed in accordance with a Board-approved policy, which outlines the objectives and strategies for the management of financial risk, including the use of derivative contracts. Permitted financial risk management strategies are aimed at minimizing the volatility of the 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 and restricted cash is minimal, as the Project'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 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, related party loans and partnership and shareholder contributions.

The following are the contractual maturities of the Project's financial liabilities, including principal, sinking funds and interest as at December 31, 2022:

<i>(thousands of Canadian dollars)</i>	< 1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	112,767	-	-	-	112,767
Related party loan payable	29,665	-	-	-	29,665
Long-term debt	421,588	842,199	840,730	12,819,367	14,923,884
Class B limited partnership units	49,827	175,048	178,081	3,728,448	4,131,404
	613,847	1,017,247	1,018,811	16,547,815	19,197,720

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.



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In May 2017, Muskrat Falls and Labrador Transco entered into three bond forward contracts of \$1.8 billion to hedge the interest rate risk on the forecasted issue of the additional long-term debt. 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 expense. The amortization of the other comprehensive loss related to the effective portion of the cash flow hedge was capitalized in prior years and is amortized to profit or loss for the current year in line with treatment of the interest expense related to the long-term debt that it is hedging, in accordance with the Project's accounting policy outlined in Note 2.10. The total amount amortized in 2022 including the previous cash flow hedge initiated in December 2013 was \$3.7 million (2021 - \$3.7 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 denominated capital expenditures, and regular procurement activities.

**19. RELATED PARTY TRANSACTIONS**

The Project enters into various transactions with its parent and other affiliates. Unless otherwise noted, 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. Outstanding balances due to or from related parties are non-interest bearing with settlement within 30 days, unless otherwise stated.

Related parties with which the Project transacts are as follows:

<u>Related Party</u>	<u>Relationship</u>
Nalcor	100% shareholder of LIL Holdco, Labrador Transco, LCMC, LIL Opco, Labrador-Island Link General Partner and Muskrat Falls Limited Partner holding 25 Class B limited partnership units of LIL LP
Emera NL	
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
Churchill Falls (Labrador) Corporation	Joint arrangement of Hydro
Nalcor Energy Marketing Corporation	Wholly-owned subsidiary of Nalcor
The Province	100% shareholder of Nalcor

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Significant related party transactions, which are not otherwise disclosed separately in the financial statements, are summarized below:

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2022</b>	2021
<b>Trade and other receivables:</b>		
Parent	-	309
Other related parties	<b>22,361</b>	64
<b>Contract asset:</b>		
Other related parties	Note 8 <b>165,466</b>	17,573
<b>Other long-term asset:</b>		
Other related parties	Note 20(g) <b>3,126</b>	3,014
<b>Trade and other payables:</b>		
Parent	<b>12,231</b>	16,095
The Province	<b>12,968</b>	5,663
Other related parties	<b>6,404</b>	1,121
<b>Deferred revenue (including current portion):</b>		
Other related parties	Note 12 <b>112,900</b>	91,700
<b>Related party loan payable:</b>		
Other related parties	(a) <b>29,665</b>	53,220
<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2022</b>	2021
<b>Revenue:</b>		
Parent	(b) <b>74,768</b>	8,590
Other related parties	<b>416,495</b>	58,556
<b>Other revenue</b>		
Other related parties	<b>390</b>	390
<b>Power purchased:</b>		
Other related parties	(c) <b>5,893</b>	3,957
<b>Additions to property, plant and equipment:</b>		
Parent	<b>10,613</b>	8,207
Other related parties	-	2,048
<b>Operating costs:</b>		
Parent	<b>12,235</b>	15,958
Other related parties	<b>904</b>	3,301
<b>Transmission expense:</b>		
Other related parties	<b>8,678</b>	1,131
<b>Other expense:</b>		
The Province	<b>12,512</b>	2,660
Other related parties	<b>(903)</b>	-

(a) Muskrat Falls has a related party loan payable with Hydro which includes interest charged at 5.43% and is payable from Muskrat Falls as cash becomes available while still meeting its debt servicing costs.

(b) Muskrat Falls has contributed energy to Nalcor related to delivery of the Nova Scotia Block.

(c) Muskrat Falls has a contribution of power purchases from Nalcor related to delivery of the Nova Scotia Block.

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**20. 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 has committed to fund its share of the capital expenditures of the LIL.
- (d) LIL LP has entered into the LIL Lease 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 beginning 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.
- (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 57 years, whereby Muskrat Falls and Labrador Transco have committed to design, construct, operate and maintain the MF Plant and LTA, and provide such other services as agreed to ensure safe and reliable transmission of electricity. Revenue allocated to the remaining performance obligation (unsatisfied or partially unsatisfied) related to energy and capacity sales as at December 31, 2022 total \$544.4 million within one year and \$37,030.3 million in more than one year.
- (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. 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) The Water Management Agreement between Churchill Falls and Muskrat Falls provides for coordinated production for the efficient use of water on the Churchill River system by ensuring that water is available to meet delivery requirements and contractual commitments for both Churchill Falls and Muskrat Falls, while maximizing the energy produced from the water resource. As at December 31, 2022 Muskrat Falls has the equivalent of approximately 1.5 Twh (2021 – 1.3 Twh) of energy stored in the Churchill Falls reservoir.
- (h) 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.
- (i) The Project 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 Project, they may have a significant adverse effect on the Project's financial position.
- (j) Outstanding commitments for capital projects total approximately \$36.6 million as at December 31, 2022 (2021 - \$45.6 million).

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**21. CAPITAL MANAGEMENT**

Capital includes partner capital, share capital, shareholder contributions, retained earnings 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 Plant. During this time, it is expected that shareholder contributions will be sufficient to fund the development of the assets. The Province has provided guarantees of equity support in relation to the construction of the Project. These guarantees will ensure sufficient funds are available to finance remaining construction costs. Cash generated from operations will be sufficient to fund the operating, maintaining and sustaining activities of the MF Plant and the LTA.

**22. SUPPLEMENTARY CASH FLOW INFORMATION**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2022</b>	2021
Trade and other receivables	<b>(26,448)</b>	4,414
Inventories	<b>(2,066)</b>	(619)
Prepayments	<b>1,582</b>	4,120
Trade and other payables	<b>(109,376)</b>	(1,632)
Changes in non-cash working capital balances	<b>(136,308)</b>	6,283
Related to:		
Operating activities	<b>(11,510)</b>	22,146
Investing activities	<b>(124,798)</b>	(15,863)
	<b>(136,308)</b>	6,283