Q. **Reference: Appendix D – Summary of Proposed Regulatory Accounting for Muskrat Falls Project Charges**

Was the information included in Appendix D prepared in consultation with external accountants/auditors? If so, please provide the information and/or consultation papers prepared for Hydro.

A. The information in Appendix D was prepared based upon management's assessment of IFRS 15 – *Revenue from Contracts with Customers*. Newfoundland and Labrador Hydro ("Hydro") and Nalcor Energy management jointly prepared accounting assessments related to key contracts related to the Lower Churchill Project ("LCP"). The assessments are attached as PUB-NLH-029, Attachment 1 and PUB-NLH-029, Attachment 2. It should be noted that the accounting assessments were prepared from the perspective of the LCP entity recognizing revenue associated with the contracts. Hydro's accounting for the related expenses follows the same conclusions.[1] The external auditors reviewed the assessments and provided input; however, management maintains responsibility for the assessments.

[1] Note that the examples in the appendices do not reflect the most recent financial forecast included in the application as they were based on previous estimates.

Muskrat Falls Power Purchase Agreement under IFRS 15

IFRS 15 Overview

IFRS 15 was issued in May 2014 and applies to annual reporting periods beginning on or after January 1, 2018.

The standard replaces *IAS 11: Construction Contracts, IAS 18: Revenue, IFRIC 13: Customer Loyalty Programs, IFRIC 15: Agreements for the Construction of Real Estate, IFRIC 18: Transfers of Assets from Customers, SIC-31: Revenue – Barter Transactions Involving Advertising Services*.

Contracts with customers are out of the scope of the standard if they fall within the scope of *IFRS 16: Leases, IFRS 9: Financial Instruments, IFRS 10: Consolidated Financial Statements, IFRS 11: Joint Arrangements, IAS 27: Separate Financial Statements, IAS 28: Investments in Associates and Joint Ventures, IFRS 4: Insurance Contracts*, and non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers. In a separate memo, Management documented and concluded that the contract was not within the scope of these standards – refer to LCP19 – 002. Therefore, the contract has been assessed under IFRS 15.

However, as noted in Appendix 4, the Purchase Power Agreement ("MF PPA") also includes a loan that is concluded to be in the scope of IFRS 9, Financial Instruments ("IFRS 9"). IFRS 15.7 notes that a contract may be partially within the scope of IFRS 15 and partially in the scope of other standards (e.g. IFRS 9). When this is the case, if other standards specify how to separate and/or initially measure one or more parts of the contract, then an entity first applies the separation and/or measurement requirements of those Standards. The amounts of the parts of the contract that are initially measured in accordance with other Standards are excluded from the transaction price. The requirements of IFRS 15:73 to 86 (see section 8) are then applied to allocate the amount of the transaction price that remains (if any) to each performance obligation within the scope of IFRS 15 and to any other parts of the contract identified by IFRS 15:7(b).

If the other Standards do not specify how to separate and/or initially measure one or more parts of the contract, then IFRS 15 is applied to separate and/or initially measure the part (or parts) of the contract.

In the case of the MF PPA, as further detailed in Appendix 4, there is the potential for an additional loan (and resulting receivable) to be issued amongst the parties in the arrangement. As noted in Appendix 4, this has been concluded to be a financial instrument in the scope of IFRS 9 and would thereby suggest that a portion of this contract is outside of the scope of IFRS 15. Having said that, given the fact that at inception this loan is not outstanding, and the fact that if and when it is drawn out, it will be additional consideration (i.e. outside of the consideration currently stipulated in the MF PPA), it has been concluded that no portion of the contract requires allocation for this component at inception.

IFRS 15 applies the following five steps:

1. Identify the contract(s) with a customer;

2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

The following position paper will assess Muskrat Falls Corporation ("MFC") MF PPA with Newfoundland and Labrador Hydro ("NLH") under IFRS 15, as well as the implications surrounding the timing and measurement of revenue recognition upon implementation of the contract.

Note – Please refer to MF PPA Article 1 – Interpretation for capitalized terms reference throughout this paper.

Relevant Guidance

- IFRS 15 – Revenue from contracts with customers ("IFRS 15")
- IFRS 9 – Financial Instruments ("IFRS9")
- IAS 32 – Financial Instruments: Presentation ("IAS 32")
- EY's Applying IFRS, A closer look at IFRS 15, Updated September 2019
- Deloitte: iGAAP 2018 – Volume A, Part 1[1]
- AICPA Audit and Accounting Guide: Revenue Recognition - Chapter 15 – Power and Utilities ("AICPA Guide")

Key Agreement Details

Contract: MF PPA

Parties: MFC (supplier) and NLH (customer)

Term: The Supply Period, defined as the period commencing at the time commissioning has been completed and ending January 1, 2068, (Section 13.2). Section 13.3(a) permits extension to ensure that the Supply Period is 50 years at a minimum. Given that the MF PPA term is a minimum of 50 years, the term has been concluded to be 50 years (please refer to discussion in Step 1 section to support this conclusion).

Summary: The MF PPA provides for MFC to design, develop, finance, construct, own, commission, operate and maintain the Muskrat Falls hydroelectric generating facility ("MF Plant") and for NLH to purchase energy, capacity, ancillary services and greenhouse gas credits ("GHG Credits") on a full cost recovery basis.

Recent development: On February 10, 2020, the provincial and federal governments announced a plan to negotiate a financial restructuring of the Lower Churchill Project, including a change to the Muskrat Falls revenue model. A formal agreement

[1] Please note, while the 2018 versions have been used, discussion was had as to whether any material differences exist between the 2018 versions of iGAAP and later versions as it relates to matters contemplated in this memo – no such differences were identified.

between both levels of government is anticipated to be implemented by completion of commissioning activities. At this time MFC is uncertain of the effect on the PPA. The revised MF PPA will be assessed from a financial reporting perspective once finalized at a later date and could change the conclusions documented below.

Background

The MF PPA was executed on November 29, 2013 between MFC and NLH. The agreement provides for full cost recovery of the construction costs (including sustaining costs), operation and maintenance ("O&M") of the MF Plant plus a required rate of return paid for by NLH in the form of Base Block Payments (4.2). In return NLH will receive energy, capacity, ancillary services and GHG Credits in the form of Commissioning Period Block energy, Base Block Energy and Supplemental Block Energy, if required.

Analysis of the MF PPA – Steps 1 through 5

Step 1: Identify the contract(s) with a customer

IFRS 15.6 states that *a customer is a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.* Given that the arrangement provides for NLH's purchase of goods and services (energy, capacity, ancillary services and GHG Credits) which are an output of MFC's normal operations, it is clear that for the purpose of this contract, NLH is a customer.

IFRS 15.9 sets out the specific criteria to be met for an arrangement to be considered a contract with a customer:

An entity shall account for a contract with a customer that is within the scope of this Standard only when all of the following criteria are met:

(a) the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;

The arrangement between MFC and NLH for the purchase of energy, capacity, ancillary services and GHG Credits is covered by a contract which is in writing, legally enforceable and signed by both parties.

(b) the entity can identify each party's rights regarding the goods or services to be transferred;

The arrangement provides for the purchase of energy, capacity, ancillary services and GHG Credits from MFC to NLH. The rights of both parties regarding the energy supply and delivery are clearly stated within the contracts which make up the arrangement, predominately in Articles 3 - Energy and Capacity Management and Article 4 – Purchase and Sale of Energy.

(c) the entity can identify the payment terms for the goods or services to be transferred;

MF PPA Article 4, Purchase and Sale of Energy, and in Article 9, Invoicing, outline the pricing and payment terms respectively.

(d) the contract has commercial substance (ie the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and

MFC will generate significant cash flows as a result of the 8.4% Assigned Internal Rate of Return ("IRR") outlined in the contract (Schedule 1, Section 1). NLH's obligation to pay MFC is absolute, unconditional and irrevocable, and shall not be subject to any reductions under any circumstances whatsoever (4.2 (d)).

The term of the agreement commences November 2013 (13.1) and terminates on the first occurrence of (13.2),

1) end of the Supply Period; and
2) subject to the approval of the Financial Parties, the date set forth in a written agreement of the Parties to terminate.

Where by the Supply Period means the period commencing at the completion of commissioning and ending January 1, 2068, which may be extended pursuant to 13.3(a), and is 50 years, see analysis in paragraphs below.

(e) it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession (see paragraph 52).

NLH is a related party with no history of collectability issues. NLH's ability and intent to continue to pay on-time and in full is highly probable and heightened by an Order in Council (OC2013-343) which calls for full recovery from NLH.

As all of the criteria identified above have been met, the MF PPA is accounted for under IFRS 15.

Contract term

A question also arises as it relates to contract term, as determining the term of the contract is an important step in the revenue recognition process. Contract term is determined on the basis of present enforceable rights and obligations. Contracts do not include optional renewal periods or optional deliveries of goods services.

As it relates to the MF PPA, although there are renewal options beyond the minimum stipulated 50-year term, given the optionality of this extension, it is not an enforceable right nor obligation, and therefore has not been factored into the contract term.

In concluding on enforceable rights and obligations, termination rights must also be considered. To the extent that termination rights exist within a contract (e.g. to the extent the customer has the right to terminate within the contractually stipulated term, which in this case is 50 years), consideration is required as to whether the termination provisions are substantive. In order to assess this criterion, the following factors are required to be considered (which have been considered/assessed in the context of the MF PPA agreement):

Criteria	Conclusion
Is there a requirement to pay a termination penalty?	Yes, NLH's obligation to make Base Block Payments are absolute, unconditional and irrevocable, until the initial financing is paid in full (4.2(d))
What is the amount of the termination penalty/consideration?	The termination penalty is equal to the fixed consideration included in the contract price.
What is the reason for the penalty/consideration (i.e. is the compensation in addition to amounts for goods and services already delivered?	The penalty equates to the initial contract costs incurred by MFC plus the contracts IRR.

Based on the above analysis, it has been concluded that the contract term is 50 years.

Contract Combination

It should be noted that the MF PPA was executed in November 2013 alongside several other related party agreements (see Appendix 1 for agreement summaries). Given the fact that numerous contracts have been entered into amongst related parties around the same time, an analysis of the contract combination criteria has been completed as follows:

Contract	Date Entered Into	Supplier	Customer
Generator Interconnection Agreement ("GIA")	11/29/13	Labrador Transmission Corporation ("LTC")	MFC
Transmission Funding Agreement ("TFA")	11/29/13	Labrador-Island Link Operating Corporation ("LIL Opco")	NLH
LIL Lease	11/29/13	Labrador Island Link Limited Partnership ("LIL LP")	LIL OpCo

As demonstrated in the table above, there are no contracts that have been entered into (from a service provider perspective) by the same counterparty that would then require consideration under the contract combination guidance, as such, this guidance has not been further assessed here.

Step 2: Identify the performance obligations in the contract

Per IFRS 15.22 *At contract inception, an entity shall assess the goods or services promised in a contract with a customer and shall identify as a performance obligation each promise to transfer to the customer either:*

(a) a good or service (or a bundle of goods or services) that is distinct; or

(b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer (see paragraph 23).

In order to qualify as a distinct good or service, IFRS 15.27 requires that both of the following criteria are met:

(a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (ie the good or service is capable of being distinct); and
(b) the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (ie the good or service is distinct within the context of the contract).

In assessing performance obligations, it is important to: 1) determine whether an entity is a principal or an agent in the transaction, as this will affect the nature of the performance obligation and 2) identifying promised goods and services, specifically those that transfer a good or service to a customer.

Identifying Promise Goods and Services

When identifying the Performance Obligations, the first step is to identify the goods and services contained in the agreement. The contract includes supply and delivery of:

1. Energy, including potential Commissioning Period Block, Base Block Energy (as outlined in Schedule 2) and Supplemental Block Energy, if required
2. Capacity
3. Ancillary Services
4. GHG Credits and
5. MFC must design, develop, finance, construct, commission, own, operate, maintain and sustain the MF Plant.

An important distinction to make in identifying promised goods and services is to ensure it is only those promised goods and services that transfer to the customer that are identified. As it relates to the above noted promises, the promise to design, develop, finance, construct, commission, own, operate, maintain and sustain the MF Plant does not result in the transfer of a good or service to the customer (i.e. NLH) and therefore has not been further assessed below as a performance obligation (i.e. this is simply an obligation that MFC is require to undertake in order to fulfill its other promises).

Conclusions based on this step are as follows:

Promised Good or Service?	**Does the promised good or service transfer to the customer?**	**Is the promised good or service capable of being distinct? [IFRS 15.27.a]**	**Is the promised good or service distinct in the context of the contract? [IFRS 15.27.b]**	**Conclusion:**
Energy	Yes	TBD – refer below	TBD – refer below	TBD – refer below
Capacity	Yes	TBD – refer below	TBD – refer below	TBD – refer below
Ancillary Services	Yes	TBD – refer below	TBD – refer below	TBD – refer below
GHG Credits	Yes	TBD – refer below	TBD – refer below	TBD – refer below
MFC must design, develop, finance, construct, commission, own, operate, maintain and	No	N/A	N/A	Not a transferring promised good or services – therefore, not a performance obligation.

sustain the MF Plant.				

The next step involves determining whether the goods and services promised in the contracts are capable of being distinct in the context of IFRS 15.27 (a). In assessing whether a promised good or service is capable of being distinct we have assessed the following:

Promised Good or Service?	**Can the customer benefit from the good or service on its own?**		**Can the customer benefit from the good or service in conjunction with other readily available resources?**	**Conclusion**
	Can the good or service be used, consumed, sold for an amount greater than scrap value?	*Can the good or service be held in a way that generates economic benefits?*	*Is the good or service regularly sold separately?*	
Energy	Yes – energy will be used for delivery to end consumers at an amount that generates value – see Note 1	Yes – see previous column	Yes	Capable of being distinct
Capacity	No	Yes – the ability to demonstrate capacity to regulators provides operational rights and therefore benefits – see Note 2	Yes	Capable of being distinct
Ancillary Services	N/A	Yes	While contractually not sold separately by a generation facility, the inherent characteristics of this service are such that they could be sold separately.	Capable of being distinct
GHG Credits	Yes – the credits can be sold on a secondary market – see Note 3	Yes – see previous column	No	Capable of being distinct

Note 1- Energy is the primary product sold by MF. The nature of a supplier's promise in an agreement to deliver electricity is to deliver a certain number of output units over a period (i.e., gigawatt hours ("GWhs")). NLH can benefit from each GWh of Energy on its own by selling it to customers.

Note 2 - The customer can benefit from the capacity on its own, e.g., as generally would be the case for a load-serving entity that is required to demonstrate access to capacity to its regulator – the Newfoundland and Labrador Board of Commissioners of Public Utilities ("PUB") publishes NLH's Reliability and Resource Adequacy Study Reviews on its website, which implies NLH is required to demonstrate access to capacity to the NL PUB.

Note 3 - Owners of renewable generation assets, receive GHG credits for producing "green" electricity. A GHG credit is used by utilities to demonstrate compliance with renewable standards. The generator can keep the GHG credit for their own account or they can sell the GHG credits to others. Although GHG credit can be sold on an unbundled basis, it is common for the generator to sell both the energy produced and the associated GHG credit on a bundled basis to a utility buyer. GHG Credits are standalone instruments that can be distinct depending on the circumstances of the arrangement. With respect to the MF PPA, *"Muskrat hereby assigns to NLH, unconditionally and absolutely, all of its right, title and interest in and to all of the GHG Credits attributable to the Delivered Energy free and clear of any encumbrances. Such assignment shall be effective from time to time as and when such GHG Credits have been created and the associated Energy is delivered to NL."* (4.7(b)). The MF PPA also states "*NLH may in its sole and absolute discretion sell such GHG Credits in whole or in part to any Person*" (4.7(a)).

NLH can potentially sell this in the future if a secondary market is identified or may use GHG credits to satisfy renewable portfolio standards within their particular jurisdiction. In contracts containing the sale of renewable energy (electricity and GHG credits), GHG credits are generally separately delineated from the sale of electricity, though pricing may be bundled. As NLH can benefit from the credits on their own by using them to satisfy renewable portfolio standards, the credits are capable of being distinct.

Therefore based on our analysis to date conclusions are as follows:

Promised Good or Service?	**Does the promised good or service transfer to the customer?**	**Is the promised good or service capable of being distinct? [IFRS 15.27.a]**	**Is the promised good or service distinct in the context of the contract? [IFRS 15.27.b]**	**Conclusion:**
Energy	Yes	Yes	TBD – refer below	TBD – refer below
Capacity	Yes	Yes	TBD – refer below	TBD – refer below
Ancillary Services	Yes	Yes	TBD – refer below	TBD – refer below
GHG Credits	Yes	Yes	TBD – refer below	TBD – refer below
MFC must design, develop, finance, construct, commission, own, operate, maintain and sustain the MF Plant.	No	N/A	N/A	Not a transferring promised good or services – therefore, not a performance obligation.

Per IFRS 15.29, *Factors that indicate that an entity's promise to transfer a good or service to a customer are not separately identifiable (in accordance with paragraph 27(b)) include, but are not limited to, the following:*

(a) the entity provides a significant service of integrating the goods or services with other goods or services promised in the contract into a bundle of goods or services that represent the combined output or outputs for which the customer has contracted. In other words, the entity is using the goods or services as inputs to produce or deliver the combined output or outputs specified by the customer. A combined output or outputs might include more than one phase, element or unit.
(b) one or more of the goods or services significantly modifies or customises, or are significantly modified or customised by, one or more of the other goods or services promised in the contract.
(c) the goods or services are highly interdependent or highly interrelated. In other words, each of the goods or services is significantly affected by one or more of the other goods or services in the

contract. For example, in some cases, two or more goods or services are significantly affected by each other because the entity would not be able to fulfil its promise by transferring each of the goods or services independently.

Based upon the 4 remaining identified goods and services, we have analyzed the criteria in IFRS 15.29 to determine what promises are distinct in the context of the contract as follows:

Promised Good or Service?	**Is there a significant service of integration? [IFRS 15.29 (a)]**	**Do one or more of the good or services significantly modify or customize another? [IFRS 15.29 (b)]**	**Are the goods or services highly interdependent? [IFRS 15.29 (c)]**	**Conclusion:**
Energy	No – see **Note 4**	No – see **Note 4**	No – see **Note 4**	Distinct in the context of the contract
Capacity	No – see **Note 5**	No – see **Note 5**	No – see **Note 5**	Distinct in the context of the contract
Ancillary Services	Yes – see **Note 6**	No	Yes – see **Note 6**	NOT distinct in the context of the contract
GHG Credits	No – see **Note 7**	No – see **Note 7**	No – see **Note 7**	Distinct in the context of the contract

Note 4 - There is no integration of GWhs with other goods or services or interdependencies (apart from purely functional dependencies) and each GWh does not result in any modification or customization of other goods or services in the contract or other GWhs. While the MF PPA includes the following categories of energy, it is important to note that the assessment of performance obligation is on the basis of the inherent characteristics of the goods or services themselves. On this basis, while categorized separately the underlying characteristics of the GWhs of energy delivered under each of the below are no different.

- Commissioning Period Block Energy: During the commissioning period NLH may at its sole discretion, avail of the option to take delivery of the Commissioning Period Block, in whole or in part, to meet NL Native Load (3.3 (a)), where by NL Native Load means electricity consumption of island customers in Newfoundland and Labrador (1.1).
- Base Block Energy: Annual amount of Energy forecasted to meet NL Native Load as outlined in in Schedule 2 of the MF PPA. Although annual allotments are specifically outlined for the Base Block Energy, NLH has the ability to draw upon subsequent years allocation to manage hydrology risk in servicing the NL Native Load (3.1(f)). NLH can also defer Base Block Energy for use in subsequent periods or to be monetized (see “Step 5 – Recognizing Revenue”) for more analysis on monetization).
- Supplemental Block Energy: Option for additional energy, beyond the Base Block Energy outlined in Schedule 2, if forecasted to be necessary to service the NL Native Load where by NL Native Load means electricity consumption of island customers in Newfoundland and Labrador (1.1). Supplemental Block Energy is currently forecasted to be nil. It is important to note that the purpose of the Supplemental Block option is to ensure MF is able to service NLH’s NL Native Load if and when needed.

As such each GWH of Energy is distinct.

Note 5 - Capacity represents NLH's reservation rights on the MF Plant which allows NLH to call upon the MF Plant to produce the energy as and when needed. As indicated in section 15.15.03 of the AICPA industry guide, even though FinREC generally believes that energy and capacity will often each be distinct performance obligations, an assessment is still required as this will not always be the case.

In order to assess whether the capacity is a distinct performance obligation, it is important to first understand the nature of this promise in the context of the contract. In the context of the MF PPA, capacity has been promised in order to satisfy a requirement for NLH, whereby NLH has to demonstrate to its regulator, the PUB, its access to capacity. There is formal reporting issued to the PUB in this regard. This right provides NLH a right to call on MFC to produce power when needed.

Said another way, although the PPA explicitly specifies the units of energy it expects to purchase under the MF PPA (Schedule 2), this volume is a minimum purchase and sale requirement. At any point in the 50-year term, NLH may require additional units of energy in order to service expected island customer demand. The ability to call upon a plant's capacity provides benefit in that it ensures that NLH can service variable (increasing) future island customer demand.

This is further demonstrated by the fact that the capacity generated from the MF PPA (i.e. over and above what is already stipulated in Schedule 2) is used to offset the capacity that is forgone by the decommissioning plans for Holyrood Facility. Under the MF PPA NLH can call on any amount of capacity it requires to service Island demand and is also able to request capacity be held in reserve.

While not an exclusive list of considerations, the above noted AICPA guide notes certain types of indicators that can be considered as part of the assessment of whether capacity is distinct, these have been analyzed as follows:

Indicators of a Distinct Obligation	Present in MF PPA?	Notes
The capacity and electricity are transacted separately in the marketplace.	Yes	Hydro has contracts with separate capacity components (for example, contracts held with Corner Brook Pulp and Paper, Vale and Praxair)
The pricing of one is NOT dependent on the pricing of the other.	No	Energy and capacity are not individually priced in the MF PPA. Pricing is based on the Base Block Energy anticipated to be delivered under Schedule 2 of the contract.
The customer can benefit from the capacity on its own by demonstrating to regulators access to capacity (i.e. the ability to produce if and when needed).	Yes	The ability to call upon a plant's capacity is common to the industry to show the provider's ability to service expected customer demand. NLH is required to demonstrate access to capacity to its regulator, the PUB. This is exemplified by using the MF PPA to offset capacity related to decommissioning plans for its Holyrood Facility. Under the MF PPA NLH can call on any amount of capacity it requires for island use and is also able to request capacity be held in reserve.

Given the above analysis, while there are some mixed indicators, particularly in pricing, there seems to generally be support to indicate that capacity is a distinct performance obligation. Generally speaking when capacity is a distinct performance obligation it is considered to be a "stand ready obligation". Given the mixed indicators, in order to further assess, we have considered typical considerations associated with identifying a stand-ready obligation to determine if these are met, thereby further supporting to notion that the capacity is distinct.

Indicator of capacity being a Distinct stand-ready obligation	**Present in MF PPA?**	**Notes**
The customer is required to make payments under the contract despite the volume (if any) of units they take delivery of.	Yes	Article 4.2 (d); until the date on the initial financing is paid in full, NLH's obligations to make the Base Block Payments shall be absolute, unconditional and irrevocable, and shall not be subject to any restrictions under any circumstances. This requirement changes however, in accordance with Article 4.2 (e), once the initial financing is paid in full then payments aligned to the delivery of energy and capacity – estimated to be 2052. As such, NLH is obligated to pay for the anticipated energy expected to be delivered to, or sold on behalf of, NLH under Schedule 2 regardless of when NLH takes delivery of the units of energy (unrequired Schedule 2 energy can be deferred for future use or monetized in accordance with 3.1(c)) for a substantial portion of the contract term. In addition, NLH can also request (or call) on MF for additional energy if the NL Load increases beyond Schedule 2. The capacity rights under the PPA provide NLH this ability to call on additional energy when and if needed.
The amount of units consumed, or taken delivery of, do not impact the remaining entitlement of delivery.	Yes	Although the MF PPA lists a minimum quantify of energy that NLH will be purchasing over the term of the arrangement (the NL Native Load as listed in Schedule 2), in the event the NL Native Load increases, NLH has the right to request and purchase additional quantities of energy to service the NL Native Load. In the event NLH takes additional capacity to service the increased NL Native Load, this does not impact it's entitlement for future periods for additional energy, in the event the NL Native Load continues to increase. As such, the units delivered do not impact remaining entitlement within the parameters of the NL Native Load volume or the MF Plant capacity – NLH has rights to this additional capacity. Note: We have also considered whether this right to increased energy in the event the NL Native Load increase is representative of variability of the contract (unknown volume being purchased). However, it is important to note that the minimum volume (Schedule 2) is a defined quantity that must be purchased by NLH (either by taking delivery or by deferring) – in any event NLH has contracted to this defined amount. The potential for amounts in excess of the NL Native Load as currently stipulated in Schedule 2 (in the event the NL Native Load increases beyond amounts currently contracted to in Schedule 2), is representative of a right to purchase an unknown quantity of additional goods. As such, MFC has an obligation to provide an additional unknown amount of energy if and when the NL Native Load increases, which is neither at the discretion of NLH nor MFC. As such, given that this represents an obligation to deliver additional goods based on a contingent event (the NL Native Load increasing) that is outside the control of both counterparties, it is not known when or how extensively NLH will receive these additional units of energy, and therefore this further supports a strong indicator of a stand-ready obligation.
The customer has the right at any point in the contract to request additional delivery of power, but is not	Yes	Although tied directly to a growth in the NL Native Load, in accordance with Article 3.1 (b), if the NL Native Load grows, additional energy (in excess of Schedule 2) can be requested (Supplemental Block Energy).

obligated to take the power when and if produced (i.e. if they did not request additional power).		The number of units consumed has no impact on the capacity entitlement - even if NLH found itself with insufficient Base Block, (i.e. if there is growth in Newfoundland such that the Base Block/Schedule 2 amounts is no longer sufficient to meet the needs of the island), NLH is still entitled to the full capacity of the plant, less any contracted commitments for external sales.

Therefore, capacity is considered to be distinct from the other goods and services in the PPA.

The nature of MFC's promise to deliver capacity is that of a stand-ready obligation as indicated in paragraph 15.5.07 of the AICPA guide. That is, MFC stands ready over a period (generally monthly) to deliver power to NLH. It is necessary to determine whether the nature of the promise under a contract is (1) to stand ready to provide goods or services or (2) to provide a defined amount of discrete goods or services. A promise to stand ready to provide goods or services is often satisfied over time as the customer benefits from being able to call upon a resource if and when needed throughout the stand-ready obligation period. This is further supported by IFRS 15.26 (e), which specifically lists a stand-ready obligation as a type of promise in a contract: *providing a service of standing ready to provide goods or services or making goods or services available for a customer to use as and when the customer decides*. As such Capacity is a distinct obligation, see discussion regarding IFRS 15.35 below for further details.

Note 6 - The MF PPA defines Ancillary Services as "*the services that are necessary to support the transmission of Energy and Capacity for generation to load while maintaining the reliability of the transmission system, including operating reserves, reactive supply, voltage control, blackstart capability, and regulation and frequency response*" (1.1). Such Ancillary Services provide little individual benefit, rather they are highly interrelated to support the transmission of both Energy and Capacity and are necessary for carrying out the Energy and Capacity obligations of the contract and therefore satisfy criterion outlined in 29(c). Therefore, per IFRS 15.27, Ancillary Services are not distinct in the context of the contract and do not qualify as performance obligations.

Note 7 - GHG credits are distinct performance obligations because (1) NLH can benefit from the good or service on its own and (2) Muskrat has made a promise to transfer GHG credits to NLH that is separately identifiable from other promises (energy/capacity) in the contract, as described in IFRS 15.27. This is largely due to the fact that there is no transformative relationship between the GHG Credits and the other promises in the contract. While there may be a functional dependency with electricity and the GHG Credits, this is not a transformative dependency that would suggest that any of the criteria in IFRS 15.29 are met.

On the basis of the below analysis we have concluded as follows:

Promised Good or Service?	**Does the promised good or service transfer to the customer?**	**Is the promised good or service capable of being distinct? [IFRS 15.27.a]**	**Is the promised good or service distinct in the context of the contract? [IFRS 15.27.b]**	**Conclusion:**
Energy	Yes	Yes	Yes	Separate performance obligation (each GWH of energy)
Capacity	Yes	Yes	Yes	Separate performance

				obligation (each increment or unit of capacity)
Ancillary Services	Yes	Yes	No	Not a separate performance obligation
GHG Credits	Yes	Yes	No	Separate performance obligation (each individual credit)
MFC must design, develop, finance, construct, commission, own, operate, maintain and sustain the MF Plant.	No	N/A	N/A	Not a transferring promised good or services – therefore, not a performance obligation

The final step is to assess whether any of the distinct goods or services identified in the contract qualify as a series of goods or services. In order to qualify as a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer, both of the following criteria must be met (IFRS 15.23):

(a) each distinct good or service in the series that the entity promises to transfer to the customer would meet the criteria in paragraph 35 to be a performance obligation satisfied over time

Whereby IFRS 15.35 states, *an entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:*

(a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs (see paragraphs B3–B4);
(b) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced (see paragraph B5); or
(c) the entity's performance does not create an asset with an alternative use to the entity (see paragraph 36) and the entity has an enforceable right to payment for performance completed to date (see paragraph 37).

In summary, paragraph 35 is met when the customer simultaneously receives and consumes the benefits from the entity's performance, which is the case for the transfer and consumption of Energy and Capacity, see step 5 for further analysis: criterion met.

(b) in accordance with paragraphs 39–40, the same method would be used to measure the entity's progress towards complete satisfaction of the performance obligation to transfer each distinct good or service in the series to the customer.

These criteria have been assessed as follows:

Distinct Good or Service	**Are the distinct goods or services substantially the same? [IFRS 15.22.b]**	**Do the distinct goods or services have the same pattern of transfer to the customer? [IFRS 15.23]**		**Conclusion:**
		Would the criteria in IFRS 15.35 be met for	*Would the same method be used to*	

		over time recognition?	*measure progress towards satisfaction of the PO?*	
Energy	Yes	Yes – see Note 8	Yes – see Note 9	Yes – series guidance applies
Capacity	Yes	Yes – see Note 10	Yes – see Note 11	Yes – series guidance applies
GHG Credits	Yes	No – see Note 12	N/A	No – series guidance does not apply

Note 8 – As further discussed and assessed in the "Step 5" section of this memo, the delivery of energy results in meeting criteria IFRS 15.35(a) and is therefore recognized over time.

Note 9 - As further discussed and assessed in the "Step 5" section of this memo, MFC measures its progress towards completion of its obligation to deliver Energy based on each GWh delivered, over the duration of the contract; criterion met.

Note 10 – While each increment of time to provide capacity is generally distinct, the obligation is very much one of a stand-ready obligation. Given the nature of a stand-ready obligation, it is providing assurance over the availability of a good or service over a period of time, and therefore as further discussed and assessed in the "Step 5" section of this memo, the access to capacity meets criteria in IFRS 15.35 (a) an is recognized over time. Furthermore, as stated in paragraph 15.5.08 of the AICPA Guide, generally, each stand-ready obligation in a forward sale of capacity is a monthly obligation. That is, the capacity agreed is expressed in monthly volumes and prices, even if the total tenor of the agreement may be for one year or more. Therefore, NLH both receives and consumes benefit from each monthly stand-ready obligation in the assurance that a scarce resource (i.e., electricity) is available to it when and if needed or called upon throughout that month. In other words, NLH is consuming the benefit of the MF Plant standing ready to deliver electricity (regardless of whether it is called upon to deliver any) evenly over time as the contract term elapses.

Note 11 - As further discussed and assessed in the "Step 5" section of this memo, the measure of progress that most accurately depicts MFC's performance of each consecutive service of standing ready to deliver electricity is an output measure of progress based on time. NLH does not benefit from MFC standing ready any differently during one period than it does for any other period making a time-based measure appropriate for measuring progress toward completion.

Note 12 - As GHG credits can be stored (i.e., in a utility customer's tracking account), their forward delivery would not meet the criterion in IFRS 15.23(a) to be a performance obligation satisfied over time. GHG credits would also fail criterion (b) and (c) of that paragraph since those criteria generally relate to physical assets that are created (constructed) over time whereas GHG credits are discrete intangible assets that arise instantaneously when electricity is produced.

Therefore, GHG credits do not qualify for the series guidance; however, the timing of revenue recognition from both Energy and GHG credits in a bundled sale arrangement would be same (i.e., Energy is simultaneously produced and delivered with revenue being recognized upon delivery of each GWh. Similarly, GHG credits are produced simultaneously with the production of each unit of energy they relate to and NLH can benefit from them upon their simultaneous production with the energy). Per

IFRS 15.BC116 *In their redeliberations, the boards observed that paragraph 22(b) of IFRS 15 applies to goods or services that are delivered consecutively, rather than concurrently. The boards noted that IFRS 15 would not need to specify the accounting for concurrently delivered distinct goods or services that have the same pattern of transfer. This is because, in those cases, an entity is not precluded from accounting for the goods or services as if they were a single performance obligation, if the outcome is the same as accounting for the goods and services as individual performance obligations*. Although Energy would reflect a performance obligation satisfied over time while each GHG credit would be a performance obligation satisfied at a point in time, the 'trigger' for the transfer of control to NHL and recognition for both would be the delivery of a unit of electricity.

Assessing Principal vs. Agent Considerations

IFRS 15.B34 states that *when another party is involved in providing goods or services to a customer, the entity shall determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (ie the entity is a principal) or to arrange for those goods or services to be provided by the other party (ie the entity is an agent).*

In the context of this arrangement, while MFC is the entity providing the energy to NLH and is ultimately responsible for the fulfillment of this obligation, to be able to fulfill this obligation MFC must enter into another agreement to interconnect the MF Plant to the transmission grid in order to be able to transmit the energy.

Per Article 4.9, title to the energy occurs upon delivery to the Delivery Points which is further defined as the points of interconnection between the MF Plant and the LTA. Therefore MFC has a responsibility to transmit the energy from the plant to the Labrador Transmission Assets ("LTA"). While MFC entered into a separate agreement (the GIA) for use of the LTA assets and is required to pay consideration in exchange for the use, the consideration paid under the GIA is ultimately recovered by MFC via the "Base Block Payment" (that is paid to MFC from NLH and discussed further in the section below).

In other words, in order to fulfill its obligations for the delivery of energy under the MF PPA, MFC must have access to the LTA interconnect services and to use as the MF Delivery Point. In order to have access to the LTA interconnect services, MFC has entered into the GIA, whereby MFC has agreed to pay a fee (the LTA Payment) to LTC for access to the interconnection services - which ultimately allows MFC to fulfill its obligation for the delivery of energy.

Although this separate payment is made, this payment is effectively recovered from NLH as part of the Base Block Payment. This may raises the question as to whether this payment is in fact consideration that is in exchange for the goods/services in the PPA or if this is simply an arrangement whereby MFC is acting as an agent on behalf of NLH in collecting to the consideration that is ultimately required to be remitted to LTC.

In this case, it is important to note that the goods/services that NLH has contracted to in the MF PPA, are energy, capacity and GHG credits, all of which are fulfilled exclusively by MFC. Therefore, although MFC is able to recover a portion of its costs in fulfilling this obligation, contractually it is only MFC and NLH that are parties to the MF PPA and no other parties have been contracted to fulfill these services/goods. As a result, MFC is the entity that retains control of the energy, capacity and GHG credits prior to transfer to NLH (despite payment terms that suggest a flow-through nature). Given that IFRS 15 is premised on control of goods and services prior to transfer to the customer, it is on this basis it is concluded that MFC is the principal and no further analysis of principal agent indicators is required.

Step 3: Determine the transaction price

Per IFRS 15.47, transaction price can be defined as *"the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both."*

When determining the transaction price, an entity shall consider the effects of all of the following (IFRS 15.48):

(a) variable consideration (see paragraphs 50–55 and 59);
(b) constraining estimates of variable consideration (see paragraphs 56–58);
(c) the existence of a significant financing component in the contract (see paragraphs 60–65);
(d) non-cash consideration (see paragraphs 66–69); and
(e) consideration payable to a customer (see paragraphs 70–72).

Pricing for the duration of the contract is predominantly outlined in Article 4, Purchase and Sale of Energy, of the MF PPA. The transaction price contains variable and fixed components as follows:

Payment Type		**Fixed or Variable**	**If Fixed - Amount**
Base Block Payment: ***Base Block Capital Cost Recovery*** Recovery of the development capital and financing costs, of $6.3 billion, over the remaining supply period (currently assessed at 50 years) plus a fixed rate of return of 8.4% (Schedule 1).		Fixed	$55.4 billion
Base Block Payment: ***O&M Costs*** Cost recovery relating to:	• operating and maintenance costs	Variable	N/A
	• operational financing costs	Variable	N/A
	• sustaining costs	Variable	N/A
	• IBA payments	Variable	N/A
	• water lease, taxes	Variable	N/A
	• LTA Payments Note that LTA Payment includes recovery of development capital and financing costs of $1.1 billion plus 8.4% return and O&M Costs over the Supply Period (also 50 years*). Note LTA Payments includes fixed and variable components See assessment LCP20-002-IFRS 15 Treatment of the GIA for full analysis. A summary is outlined in the chart below.*	Variable	N/A
Commissioning Period Payment Payment related to Energy and Capacity during the Commissioning Period of $1.00 per month or any amount designated by NLH		TBD	$1.00 or TBD
Supplemental Energy Supplemental Energy, if any, will be sold to NLH for $1 each Operating Year *Note: Value is immaterial and therefore will be excluded from our analysis of the transaction price.*		Fixed	$1.00 per Operating year
Ancillary Services Payment related to the performance of Ancillary Services of $1.00 per year. *Note: Value is immaterial and therefore will be excluded from our analysis of the transaction price.*		Fixed	$1.00 per Operating year

The as per LCP20 - 002 – IFRS 15 Treatment of the GIA, the LTA Payment includes:

<table>
<tr><th colspan="2">LTA Payment Type</th><th>Fixed or Variable</th><th>If Fixed - Amount</th></tr>
<tr><td colspan="2">LTA Capital Cost Recovery

Cost recovery of development capital and financing costs over the remaining supply period plus a fixed rate of return of 8.4% (Schedule 1).

Note: While this amount is fixed over the contract life, the charge/price that is allocated within various years of the contract fluctuates and the amount owing is not fixed year over year. Also, forecasting will be required as remediation and contract closeout work is ongoing at contract inception and not be fully known.</td><td>Fixed</td><td>$7.6 billion</td></tr>
<tr><td rowspan="6">LTA O&M Costs

The LTA costs as defined in the GIA are broken down further into a number of costs which have been separately noted herein for analysis:</td><td>LTA O&M Activities

All activities and undertakings performed by or on behalf of Labrador Transco that are required (considering the remaining LTA Service Life) to operate, maintain and sustain the LTA, including the LTA Sustaining Activities*, administration and reporting, but for greater certainty excludes the LTA Development Activities.

*Note: given that the nature of LTA Sustaining Activities may vary, they have been broken out as a separate line item below.</td><td>Variable</td><td>N/A</td></tr>
<tr><td>LTA Sustaining Activities

All activities and undertakings of a capital nature occurring during the Supply Period to replace and overhaul major assets or major components of the LTA, which do not occur annually and are necessary to sustain the LTA's performance in accordance with Good Utility Practice, but for greater certainty excludes the LTA Development Activities.</td><td>Variable</td><td></td></tr>
<tr><td>LTA Operating Financing Costs

All costs incurred with respect to debt and equity financing of the LTA O&M Costs as applicable, in the following categories: (a) interest expenses; (b) return on equity; (c) costs associated with hedging, derivative or swap transactions; (d) costs incurred that are directly attributable to each of the structuring, securing and arrangement of debt or equity financing, including costs associated with legal, tax, accounting, technical and other internal or third party advisors and fees and other costs payable pursuant to financing documents in respect of the LTA O&M Debt; (e) underwriting, standby, commitment and other fees; (f) rating agency fees; and (g) costs of financing cash reserves required by applicable financing parties.</td><td>Variable</td><td>N/A</td></tr>
<tr><td>IBA Payments

All payments made by Labrador Transco to aboriginal peoples pursuant to applicable impact and benefit agreements now or hereafter entered into by, or assigned to, Labrador Transco.</td><td>Variable</td><td>N/A</td></tr>
<tr><td>Payments pursuant to any real property leases, licenses or easements necessary for access to lands on which the LTA is located, which are not otherwise LTA Development Capital Costs</td><td>Variable</td><td>N/A</td></tr>
<tr><td>Indemnity payments</td><td>Variable</td><td>N/A</td></tr>
</table>

	Taxes (net of any Taxes recovered)	Variable	N/A

The MF PPA also contains an IFRS 9 financial instrument, referred to as the Base Block Capital Cost Recovery Adjustment ("BBCCRA"), whereby reimbursable interest-bearing advances are provided to ensure MFC has cash available to meet all obligations on a monthly basis (See Appendix 4 for further analysis).

As noted above, we have identified one form of variable consideration identified: Base Block Payment: O&M costs.

Per IFRS 15.53, MFC is required to estimate the amount of variable consideration related to the variable consideration based on whichever of the following better predicts the ultimate consideration:

(a) The expected value — the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the amount of variable consideration if an entity has a large number of contracts with similar characteristics.

(b) The most likely amount — the most likely amount is the single most likely amount in a range of possible consideration amounts (ie the single most likely outcome of the contract). The most likely amount may be an appropriate estimate of the amount of variable consideration if the contract has only two possible outcomes (for example, an entity either achieves a performance bonus or does not).

IFRS 15 states that *"An entity shall include in the transaction price some or all of an amount of variable consideration estimated in accordance with paragraph 53 only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved."* Paragraph 57 goes on to outline circumstances where significant reversals in revenue recognized may occur:

In assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur once the uncertainty related to the variable consideration is subsequently resolved, an entity shall consider both the likelihood and the magnitude of the revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:

(a) the amount of consideration is highly susceptible to factors outside the entity's influence. Those factors may include volatility in a market, the judgement or actions of third parties, weather conditions and a high risk of obsolescence of the promised good or service.

(b) the uncertainty about the amount of consideration is not expected to be resolved for a long period of time.

(c) the entity's experience (or other evidence) with similar types of contracts is limited, or that experience (or other evidence) has limited predictive value.

(d) the entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar contracts in similar circumstances.

(e) the contract has a large number and broad range of possible consideration amounts.

Therefore, for all forms of variable consideration it is clear that under Step 3 of the model there is a requirement to estimate and constrain variable consideration for allocation in the transaction price and allocation as part of Step 4. As a general exception to this principal, Step 4 of the model provides an allocation exception whereby the variable in consideration may effectively be attributable to a distinct good or service in a contract [IFRS 15.84 – 85]. If this criterion is met (noted below), given the direct attribution, the principals of estimation and constraints from Step 3 of the model may not be required.

15.84 *Variable consideration that is promised in a contract may be attributable to the entire contract or to a specific part of the contract, such as either of the following:*

(a) one or more, but not all, performance obligations in the contract (for example, a bonus may be contingent on an entity transferring a promised good or service within a specified period of time); or

(b) one or more, but not all, distinct goods or services promised in a series of distinct goods or services that forms part of a single performance obligation in accordance with paragraph 22(b) (for example, the consideration promised for the second year of a two-year cleaning service contract will increase on the basis of movements in a specified inflation index).

15.85 *An entity shall allocate a variable amount (and subsequent changes to that amount) entirely to a performance obligation or to a distinct good or service that forms part of a single performance obligation in accordance with paragraph 22(b) if both of the following criteria are met:*

(a) the terms of a variable payment relate specifically to the entity's efforts to satisfy the performance obligation or transfer the distinct good or service (or to a specific outcome from satisfying the performance obligation or transferring the distinct good or service); and

(b) allocating the variable amount of consideration entirely to the performance obligation or the distinct good or service is consistent with the allocation objective in paragraph 73 when considering all of the performance obligations and payment terms in the contract.

Entities may need to exercise significant judgement to determine whether they meet the requirements to allocate variable consideration to specific performance obligations or distinct goods or services within a series. In assessing whether the payment relates specifically to an entity's efforts, an entity needs to consider the nature of its promise and how the performance obligation has been defined. In addition, the entity needs to clearly understand the variable payment terms and how they align with the entity's promise. This includes evaluating any claw backs or other potential adjustments to the variable payment.

For example, an entity may conclude that the nature of its promise in a contract is to provide hotel management services (including management of the hotel employees, accounting services, training and procurement, etc.) that comprise a series of distinct services (i.e. daily hotel management). For providing this service, the entity receives a variable fee (based on a percentage of occupancy rates). It is likely that the entity would determine that it meets the first criterion to allocate the daily variable fee to the distinct service performed that day because the uncertainty related to the consideration is resolved on a daily basis as the entity satisfies its obligation to perform daily hotel management services. This is because the variable payments specifically relate to transferring the distinct service that is part of a series of distinct goods or services (i.e. the daily management service).

A further example of this has been illustrated in a TRG paper which includes a hotel management contract in which monthly consideration is based on a percentage of monthly rental revenue, reimbursement of labor costs and an annual incentive payment. The allocation objective could be met for each payment stream as follows. The base monthly fees could meet the allocation objective if the consistent measure throughout the contract period (e.g. 1% of monthly rental revenue) reflects the value to the customer. The cost reimbursements could meet the allocation objective if they are commensurate with an entity's efforts to fulfil the promise each day. The annual incentive fee could also meet the allocation objective if it reflects the value delivered to the customer for the annual period and is reasonable compared with incentive fees that could be earned in other periods.

As such, prior to assessing the measurement principals under Step 3 an analysis of Step 4 as it relates to variable consideration has been completed below.

Note: The Base Block Payment includes variable O&M Costs. The O&M Costs can be further broken down and include other components, which have been noted below.

Assessment of Step 4 – Exception – Allocation of Variable Consideration					
Forms of Consideration	**Do the terms of the variable payment relate specifically to an entity's efforts in satisfying the performance obligation or transferring the distinct service? [IFRS 15.85 (a)]**			**Is allocating the variable amount of consideration to a distinct good or service consistent with the allocation objective? [IFRS 15.85 (b)]**	**Conclusion**
	Is the changing price intended to reflect changes in market terms?	*Is the changing price linked to changes in the entity's cost of fulfilling the obligation?*	*Is the changing price linked to changes in the value provided to the customer?*		
Base Block – O&M - MF operating and maintaining the MF Plant	No	Yes – Note 13	Yes	Yes	Allocate variable consideration to distinct services (i.e. periods incurred)
Base Block O&M – operational financing costs	This consideration is not material and therefore has not been further assessed herein.				
Base Block O&M - MFC sustaining capital	No – Note 14	No – Note 14	No – Note 14	No	Estimate variable consideration as part of Step 3 and apply the constraint
Base Block O&M – IBA Payments	No	No – Note 15	No	No	Estimate variable consideration as part of Step 3 and apply the constraint

Base Block O&M – Water Lease		No	Yes – Note 16	Yes	Yes	Allocate variable consideration to distinct services (i.e. periods incurred)
Base Block O&M - LTC Payment *See assessment LCP20-002-IFRS 15 Treatment of the GIA for full analysis.*	LTA O&M Activities (including associated taxes)	No	No	No	No	Estimate variable consideration as part of Step 3 and apply the constraint
	LTA Sustaining Capital Activities (including associated taxes)	No – Note 14	No – Note 14	No – Note 14	No	Estimate variable consideration as part of Step 3 and apply the constraint
	LTA Operating Financing Costs	This consideration is not material and therefore has not been further assessed herein.				
	IBA Payments	Note 15	No – Note 15	Note 15	Note 15	IMM - not currently assessed as forecasted to be nil
	Payments for leases, licenses or easements	No	Yes	Yes	Yes	IMM - not currently assessed as forecasted to be nil
	Indemnity payments	No	No	No	No	IMM - not currently assessed as forecasted to be nil

Note 13 - Cost recovery related to operating and maintaining the MF Plant over the contract's forecasted 50-year term. MFC has no certainty that forecasts will not materially change over the 50-year contract term due to factors outside of MFC's control including inflation, the Labrador economy, weather patterns, asset reliability and other factors that may affect forecasts into the future. Also, MFC assets have not yet completed construction which means MFC has yet to gain any experience in operating or sustaining its assets. To help alleviate uncertainties, detailed operating and maintaining costs have been forecasted for the first 5 operating years are and are being tested by an external party to validate the estimates are in an appropriate range.

As the operating and maintenance variable fees relating to operating and maintaining the MF Plant are the reimbursement of actual costs incurred and they relate directly to MFC's efforts to provide each GWh of energy and each day of capacity, these costs would meet the allocation objective as they are commensurate with the efforts taken to fulfill the obligation to provide energy and capacity. Because the allocation exception criteria have been met, IFRS 15 does not require an estimate of the variable consideration over the life of the contract, thus there is also no requirement to consider any constraints. The O&M fees relating to operating and maintaining the MF Plant will be recognized as revenue as earned (i.e., as the underlying O&M costs are incurred).

Note 14 – O&M cost recovery related to sustaining capital over the contract's 50-year term. Reimbursable costs related to sustaining capital do not meet the criterion for allocation exemption as they provide benefit over multiple years and therefore do not match the entity's efforts to fulfil the promise each day. Again, MFC has no certainty that forecasts will not materially change over the 50-year contract term due to factors outside of MFC's control including inflation, the Labrador economy, weather patterns, asset reliability and other factors that may affect forecasts into the future. Also, construction of MFC assets is not yet complete, which means MFC has yet to gain any experience in operating or sustaining its assets. To help with the uncertainty, an industry consultant is being engaged to prepare a Class 5 Association for Advance Cost Engineering (AACE) sustaining capital estimate. A Class 5 AACE estimate is typically prepared for strategic planning purposes, based on very limited information and has a wide accuracy range. The external party is expected to be an industry expert and will have competencies necessary to prepare adequate forecasts. Due to the range of accuracy related to a Class 5 estimates (+/- 50%) the resulting forecast will be constrained by the nature of the result.

Note 15 - Cost recovery related to IBA Payments, payments related to aboriginal people for the effects on and use of their land, water and other resources in the MF Plant area, including the Lower Churchill Innu Impacts and Benefits Agreement executed on November 18, 2011 ("IBA"). There are many different financial obligations within the current IBA that occur in both the construction and operations phases. The most significant obligation in the operations phase is the Annual Payment, an amount due to Innu Nation annually based on a calculation referred to as the After Debt Net Cash Flow. The current IBA Payment is intended to mimic a payment that is representative of 5% of MF's production income. The commercial calculation is based on IFRS revenue (5% of revenue less O&M, GIA payments, the cost of debt financing and a notional deduction for return of equity).

Although a portion of the calculation relates directly to MFC's efforts to provide each GWh of energy and each day of capacity, which would suggest the allocation object is met, given that the payment is further calculated based on other inputs that are not strictly tied to the IFRS revenue, the fluctuation in the payment period over period is not strictly correlated with the level of effort on the part of MF to satisfy its obligations in the period. As such, the allocation objective is note met, and this form of variable consideration will be estimated at contract inception and subject to the constraint.

At this time, no such payments are required by LTC (MF commitment only) and thus we are unable to assess the allocation of possible future variable consideration. As recoveries of IBA Payments are currently not applicable they will be assessed if/when required. These costs are currently forecasted to be nil from the LTA Payment perspective.

Note 16 – Cost recovery related to the Water Lease, the rental of water rights of the Lower Churchill River in Labrador, relates directly to the water used to produce energy and capacity (i.e. the agreement is structured such that the payment is based on MWh of water that is used which then directly correlates with the volume of energy produced). Similar to the costs recovery related to operating and maintaining the MF Plant and LTA, costs related to the water lease align with the level of effort require for MFC to provide each GWh of energy and each day of capacity. As such, like the operating and maintenance cost recovery in Note 13, these costs meet the allocation exception and do not require an estimate of the variable consideration over the life of the contract.

While the above analysis regarding the allocation exemption is applied and assessed against variable consideration, interpretive guidance (e.g. Deloitte's "A Roadmap to Applying the New Revenue Recognition Standard" (2019)[2]) exists which notes that in arrangements where there is both variable consideration and fixed consideration, analogies can be made to the requirements in IFRS 15.85 and these can be applied against fixed consideration to assess whether fixed consideration can also be allocated to distinct goods or services within a series. Based on the assessment completed in the context of the fixed consideration in the PPA, it is concluded that the criteria in IFRS 15.85 is not met and therefore the exemption does not apply.

Assessment of Step 3 – Estimation and Constraint of Variable Consideration (not subject to allocation exception)			
Form of Consideration	**Method of Estimation?**	**Does the Constraint Apply?**	**Conclusion**
Base Block O&M - MFC sustaining capital and associated taxes	Most likely method	Yes	At contract inception, an estimate of sustaining capital can be developed, however the full amount is constrained as the estimate was prepared in 2017 dollars and is not reflective of all sustaining capital. Once the class 5 LTAMP noted above is finalized the resulting forecast will be constrained by the nature of the result.
Base Block O&M - LTA Payment sustaining capital	Most likely method	Yes	At contract inception, an estimate of sustaining capital can be developed, however the full amount is constrained as the estimate was prepared in 2017 dollars and is not reflective of all sustaining capital. Once the class 5 LTAMP noted above is finalized the resulting forecast will be constrained by the nature of the result.
IBA Payment	Most likely method	Yes	At contract inception, an estimate of IBA payment can be estimated however will be subject to the constraint.
Base Block O&M - LTC Payment	Most likely method	Yes	At contract inception, an estimate of the LTC payment can be estimated however will be subject to the constraint.

In addition, in accordance with IFRS 15.59, after contract inception, at each reporting period, the estimate transaction price (including the assessment of this variable consideration and applicable of the constraint) will be revisited to ensure the estimate is representative of circumstances that exist at the end of the reporting period. Any changes in the transaction price are accounted for in accordance with IFRS 15.87-90, which requires that any subsequent changes in transaction price are allocated on the same basis as at contract inception. Amounts allocated to a satisfied performance obligation shall be recognised as revenue, or as a reduction of revenue, in the period in which the transaction price changes.

The transaction price can be summarized as follows:

Payment Type	**Fixed or Variable**	**Variable – Subject to Estimation and**	**Variable – Subject to Allocation Exemptions**

[2] While this roadmap is written from a US GAAP perspective, given the convergence in standards between ASC 6060 and IFRS 15, this can be used.

				Constraint	
Base Block Payment: ***Base Block Capital Cost Recovery***			Fixed	N/A	N/A
Base Block Payment: O&M Costs Cost recovery relating to:	operating and maintenance and applicable Taxes		Variable	No	Yes
	operational financing costs		Not material – not further assessed		
	sustaining costs and applicable Taxes)		Variable	Yes	No
	IBA payments		Variable	Yes	No
	Water Lease		Variable	No	Yes
	LTA Payments	LTA Capital Cost Recovery	Fixed	N/A	N/A
		LTA O&M Cost	Variable	Yes	No
		LTA sustaining costs	Variable	Yes	No
		LTA operating financing costs	Not material – not further assessed		
		IBA Payments	Not material – currently forecasted to be nil		
		Payments pursuant to any real property leases, licenses or easements	Not material – currently forecasted to be nil		
		Indemnity payments	Not material – currently forecasted to be nil		
		Taxes	Not material – currently forecasted to be nil		
Commissioning Period Payment			Fixed	N/A	N/A
Supplemental Energy			Fixed	N/A	N/A
Ancillary Services			Fixed	N/A	N/A

In addition to the above considerations, an assessment is required as to whether the arrangement contains a significant financing component. IFRS 15.60 notes that *in determining the transaction price, a promised amount of consideration is adjusted for the effects of the time value of money if the timing of payments agreed to by the parties to the contract provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer. In such circumstances, the contract contains a significant financing component which may exist irrespective of whether the promise of financing is stated explicitly in the contract or implied by the payment terms agreed to by the parties to the contract.*

The consideration under the MF PPA differs from the pattern of revenue recognition primarily due to the timing difference between:

1. IFRS 15 revenue recognition during the Commissioning Period resulting in material Energy revenue recognition prior to invoicing. Commercial consideration for the Commissioning Period is expected to be equivalent to the approved Holyrood test year fuel cost vs the Base Block price established in the MF PPA.
2. IFRS 15 requirement to allocate the transaction price amongst two performance obligation (Energy and Capacity) vs the commercial structure, which does not distinguish the consideration amongst these two obligations. The allocation of the transaction price to the performance obligation based on the stand alone selling price, results in material Capacity related revenue being recognized earlier than invoiced.

The pattern results in much higher revenue recognition than cash payment at the beginning of the contract, creating balance sheet due to/from accounts which do not fully draw down during the year and could span multiple years.   This creates the question as to whether MF is "financing" NLH, which is certainly not the intention here.

Despite this guidance, there is an exception to the above requirement, a practical expedient exists (IFRS 15.61) whereby, if the entity expects at contract inception that the period between the entity transferring a good or service and the customer paying for it will be one year or less, IFRS 15 does not require adjustment of the consideration for the effects of a significant financing component.

To assess whether the practical expedient can be applied – the following assessment is completed:

Payment Terms	
Per Article 9.1, invoicing will occur on or before the 5th business date prior to commencement of each Operating Month and the invoice shall be comprised of:	Base Block Payment Estimated O&M Costs for the month
Per Article 4.1, on the 20th day of each Operating Month during the Commissioning Period	Commissioning Period Payment

The measurement of revenue recognized, other than portions recognized under the variable consideration allocation exception, will not match the commercial payments required under the contract and therefore the amount invoiced to the customer and so the above noted practical expedient cannot be applied (i.e. the timing will vary in excess of a 12 month period).

However, IFRS 15.62 goes on to note that:

Notwithstanding the assessment in paragraph 61, a contract with a customer would not have a significant financing component if any of the following factors exist:

> *(a) the customer paid for the goods or services in advance and the timing of the transfer of those goods or services is at the discretion of the customer.*
>
> *(b) a substantial amount of the consideration promised by the customer is variable and the amount or timing of that consideration varies on the basis of the occurrence or non-occurrence of a future event that is not substantially within the control of the customer or the entity (for example, if the consideration is a sales-based royalty).*
>
> *(c) the difference between the promised consideration and the cash selling price of the good or service (as described in paragraph 61) arises for reasons other than the provision of finance to either the customer or the entity, and the difference between those amounts is proportional to the reason for the difference. For example, the payment terms might provide the entity or the customer with protection from the other party failing to adequately complete some or all of its obligations under the contract.*

As such, we have next considered the applicability of the guidance in IFRS 15.62 as follows:

IFRS 15.62 Guidance	**Applicability**
62.a	Note met - The customer is not paying for goods in advance in this case, so this is not applicable. Also, the pattern of payment is not at the discretion of the customer, regardless.
62.b	Note met - While a significant amount of the consideration is variable, an significant component is also fixed. Given that the standard does not differentiate what would constitute "significant" it is difficult to assert that this exception would be met.
62.c	Met - The variability in the recognition and the consideration differs for other reasons than the provision of finance and is for a different and substantive business purpose.

	In arriving at this conclusion, we analogized to the following: *In a Speech at the 2018 AICPA Conference on Current SEC and PCAOB Developments, Sarah Esquivel, associate chief accountant in the SEC's Office of the Chief Accountant (OCA), made the following observations about an SEC registrant's consultation with the OCA on evaluating the existence of a significant financing component, in which the registrant concluded that there was no significant financing component in the arrangement:* *In this consultation, the registrant was a retailer looking to expand a non-core existing line of business. To achieve this, the registrant entered into an arrangement with a third party to operate the non-core existing line of business, so that the registrant could maintain focus on its core operations. The registrant determined that the arrangement contained a symbolic license of intellectual property (IP), requiring revenue to be recognized over time, as the arrangement provided the third party with the right to access the registrant's trademarks and brand. As part of the consideration exchanged in the transaction, the registrant received a large up-front payment. As a result of the timing difference between the up-front payment and the transfer of the symbolic IP license over time, the registrant considered whether there was a significant financing component in the contract.* *The registrant's analysis focused on consideration of the guidance in Topic 606 that indicates a contract would not have a significant financing component if the difference between the promised consideration and the cash selling price arises for reasons other than the provision of finance, and the difference between those amounts is proportional to the reason for the difference. In this consultation, the registrant asserted that it did not contemplate a financing arrangement with the third party when including a large up-front payment in the contract. Instead, the large up-front payment was to provide the registrant protection from the possibility that the third party could fail to adequately complete some or all of its obligations under the contract. The registrant concluded that the difference between the promised consideration and the cash selling price arose for reasons other than financing and that the difference between the up-front payment and what the customer would have paid, had the payments been made over the term of the arrangement, was proportional to the reason identified for the difference. In reaching this conclusion, the registrant considered the following:* *• A large up-front payment was critical in this arrangement to incentivize the third party to maximize value, and therefore profits to both parties, due in part to the registrant's negative experience with other third parties where there was no up-front payment;* *• By the third party having sufficient "skin in the game" through the large up-front payment, it would mitigate some of the risk associated with third-party use of the registrant's brand;* *• As evidenced by its strong operating results, the registrant believed that it would be able to obtain financing at favorable rates in the market place, if*

	needed, and thus did not need the cash from the large up-front payment to finance its operations; and *• Consideration was not given to structuring the transaction without a large up-front payment.* *For these reasons, the registrant concluded that the contract did not have a significant financing component* The payment structure in the MF PPA increases over the term of the contract as the energy in Schedule 2 increases. The payment structure of the LIL TFA decreases over the term of the contract - they were meant to offset each other and provide "rate stabilization" to rate payers as all costs were ultimately to be recovered through customer rates in Hydro. It enables a smoother increase in rates over time, rather than a significant spike in the early years of the contract.

In addition, to further strengthen the argument that there is no significant financing component, the contract includes an actual financing structure under the PPA called the Base Block Capital Cost Recovery Adjustment where NLH is financing MFC (the opposite of what we are discussing here).

Therefore, the timing difference in the payment for the services is as a result of the nature of the transaction and another underlying substantive business purpose and not for the purposes of providing NLH with any benefit of financing the transfer of services. As such MFC Management has concluded that due to the circumstance surrounding the MF PPA, a significant financing component does not exist and transaction price does not need to be adjusted for the time value of money.

Step 4: Allocate the transaction price to the performance obligations in the contract

The objective when allocating the transaction price is for an entity to allocate the transaction price to each performance obligation (or distinct good or service) in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer (IFRS 15.73).

As noted above, the transaction price (that is not subject to the variable consideration allocation exception) is made up of the following:

Transaction Price	**Amount**
Base Block Payment: ***Base Block Capital Cost Recovery*** Recovery of the development capital and financing costs, of $6.3 billion, over the remaining supply period (currently assessed at 50 years) plus a fixed rate of return of 8.4% (Schedule 1).	$55.4 billion
Base Block Payment: ***O&M Costs – Sustaining Capital***	Variable amount
Base Block Payment: ***IBA Payment***	Variable amount
Base Block Payment ***LTA Payment – Sustaining Capital***	Variable amount

Base Block Payment ***LTC Payment***	Variable amount
Commissioning Period Payment **$1 per month or other amount as designated by NLH (e.g. the Holyrood test year fuel cost)**	$TBD

Given the MF PPA has three performance obligations, two of which are series of distinct performance obligations, the transaction price will need to be allocated between Energy, including GHG Credits, and Capacity. *To allocate the transaction price to each performance obligation on a relative stand-alone selling price basis, an entity shall determine the stand-alone selling price at contract inception of the distinct good or service underlying each performance obligation in the contract and allocate the transaction price in proportion to those stand-alone selling prices (IFRS 15.76).* The allocation is best performed by using observable evidence (IFRS 15.77) such as NLH's 2019 Compliance Filing which includes an Island Interconnected System Load Factor of 54.34% (see Appendix 2). The Island Interconnect System Load Factor calculates how efficient island rate payers use the system and provides a cost allocation on that basis (energy vs capacity). Using this rate, MFC will allocate 54.34% of the transaction price to Energy, including GHG Credits, and 45.66% to Capacity.

The Energy portion will need to be further allocated to each GWh forecasted to be delivered under the MF PPA. As stated in Step 2, Energy includes Commissioning Period Block Energy, Base Block Energy (as outlined in Schedule 2) and Supplemental Block Energy. At this time there is no expectation that Supplemental Block energy will be required. However, the current production profile (August 2020) indicates 1,957 GWh of Commissioning Period Block Energy will be delivered to the island. This energy will be added to the 185,482 GWh outlined in Schedule 2 to determine the transaction price for each GWh.

During 2020, Management's Energy Marketing division performed an assessment on the value of GHG Credits across Canada and throughout North America and determined that at this point in time there is no opportunity to monetize and therefore no value currently associated with GHG Credits. As such, management has concluded that the no portion of the transaction price will be allocated to GHG credits.

In addition, the variable components of the consideration which qualify for the variable consideration allocation exception, because they relate to actual O&M costs incurred so can be viewed as relating specifically to MFC's efforts to deliver each unit of energy and capacity within the two series, would also require allocation between capacity and energy to the extent revenue from capacity and energy are disclosed separately. At this point in time there is no requirement to disclose the separation. As such the effort does not need to be performed however, if required MFC would again allocate 54.34% of the variable transaction price to Energy and 45.66% to Capacity.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

IFRS 15.31 states that *"an entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (ie an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset."*

Control of a good or service is transferred over time if one of the following three criteria is met (IFRS 15.35):

(a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs (see paragraphs B3–B4);
(b) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced (see paragraph B5); or
(c) the entity's performance does not create an asset with an alternative use to the entity (see paragraph 36) and the entity has an enforceable right to payment for performance completed to date (see paragraph 37).

If the over-time criteria are met, the next consideration is the method to use for measure of progress: According to IFRS 15.41, there are two methods for measuring progress towards satisfaction of a performance obligation:

1. *Output methods (IFRS 15.B15-17)*
   Output methods recognise revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services promised under the contract. Output methods include methods such as surveys of performance completed to date, appraisals of results achieved, milestones reached, time elapsed and units produced or units delivered. When an entity evaluates whether to apply an output method to measure its progress, the entity shall consider whether the output selected would faithfully depict the entity's performance towards complete satisfaction of the performance obligation. An output method would not provide a faithful depiction of the entity's performance if the output selected would fail to measure some of the goods or services for which control has transferred to the customer. For example, output methods based on units produced or units delivered would not faithfully depict an entity's performance in satisfying a performance obligation if, at the end of the reporting period, the entity's performance has produced work in progress or finished goods controlled by the customer that are not included in the measurement of the output.

2. *Input methods (IFRS 15.B18-B19)*
   Input methods recognise revenue on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation (for example, resources consumed, labour hours expended, costs incurred, time elapsed or machine hours used) relative to the total expected inputs to the satisfaction of that performance obligation. If the entity's efforts or inputs are expended evenly throughout the performance period, it may be appropriate for the entity to recognise revenue on a straight-line basis.

As noted in the above sections – performance obligations were identified as: 1) Energy, 2) Capacity and 3) GHG credits – we have assessed these for the over-time criteria and recognition methods as follows:

Distinct Good or Service	**The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs**	**The entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced**	**The entity's performance does not create an asset with an alternative use to the entity (see paragraph 36) and the entity has an enforceable right to payment for performance completed to date**	Measure of Progress?
Energy	Yes – see Note 17	N/A	N/A	Output method – see Note

				19
Capacity	Yes – see Note 17	N/A	N/A	Output method – see Note 20
GHG Credits	No – see Note 18	No	No	N/A

Note 17 - The sale of Energy and Capacity meet criterion (a) as NLH receives and consumes the goods and services simultaneously. Therefore the performance obligation for Energy and Capacity qualifies for revenue recognition over time.

Note 18 - GHG Credits are able to be stored by the customer for future use and so do not qualify for revenue recognition over time. However, as previously stated, GHG Credits are currently assessed to have no market value, and as such, no allocation of consideration has been made and therefore there is no related revenue to recognize and no further analysis of Step 5 considerations related to point in time recognition have been completed.

Note 19 - As stated above the output method uses direct measurement of the value to the customer as the basis for revenue recognition. In relation to MFC's performance obligation this means Energy, would be recognized based on the number of GWh delivered in the reporting periods.

However, in determining how this measurement will apply in practice, additional consideration is required as to a deferral process which exists in the MF PPA.

Under the MF PPA, to the extent NLH takes delivery of energy that is below its forecasted and committed amounts in Schedule 2 (Base Block Energy), this energy will form part of the NLH Deferred Energy. Conversely, NLH can also draw on this NLH Deferred Energy and take delivery of energy in excess of its forecasted and committed amounts in Schedule 2 (Base Block Energy) due to NL Native Load growth.

The NLH Deferred Energy is calculated as follows:

NLH Deferred Energy, which equals	+ During the Commissioning Period: Any energy deferred by NLH (3.3 (a))
	+ At the end of Each Operating Year: The amount of energy by which Delivered Energy is less than sum of: A) Base Block Energy and B) Supplemental Block Energy*
	-At the end of Each Operating Year: The amount of energy by which Delivered Energy is more than: A) Base Block Energy and B) Supplemental Block Energy**
	- NLH External Market Sales

**Note: The Supplemental Block Energy is a mechanism in the PPA whereby, NLH has the ability to draw on the capacity of the MF Plant to purchase incremental energy required to satisfy the NL Native Load in a given period. Effectively, the Supplemental Block Energy is energy that is in excess of Schedule 2 amounts, as this represents energy that was not originally forecasted to be part of the NL Native Load at contract inception. This amount is calculated as follows:*

Supplemental Block Energy	*Is the lesser of:*
	i) Amount of Energy by which NL Native Load exceeds Initial Load Forecast
	ii) Current estimates annual average energy production of MF Plant less A) Base Block Energy and B) Contracted Commitments.

***Note: This (i.e. Delivered Energy > than Base Block Energy and Supplemental Energy) would be the case where during the year there is island growth which requires Supplemental Block to form part of NLH's entitlement (NLH's entitlement is now both the Base Block (unadjusted prior to growth) and Supplemental Block (additional units correlated with growth)).*

As such, under the MF PPA, MFC must provide to NLH Base Block Energy - a fixed amount of energy as outlined, by year, in Schedule 2, however, NLH does not necessarily need to take delivery of this energy, as stipulated in Schedule 2, and the pattern of recognition (i.e. the output or units delivered) will not necessarily be known at contract inception. Deferrals are not intended to be fully discretionary at the part of NLH. NLH must have a reasonable basis to support why deferral is required (i.e. there is expectation of future hydrological risk and the current Native Load demand is sufficiently met, such that deferral will not impact current ability to meet the Native Load, and provides a reasonable "cushion" for future periods where there may be hydrological risk and therefore the Native Load demand may not be met).

If NLH chooses to defer this energy (based on the appropriate reasons noted above), the following will occur:

- The deferral forms part of a "notional deferral" (whereby the volume that has been deferred is tracked, however the energy itself cannot be physically deferred as it is not a storable commodity). This amount forms part of the NLH Deferred Energy as defined above.
- While forming part of the notional deferral the amount also contributes to what is referred to as Residual Block. The Residual Block composition is best illustrated as follows:

Residual Block =	Total MF Production
	Less, Nova Scotia Block
	Less, energy forecasted/scheduled by NLH based on its 156 week forecast

  The MF Production will be driven (at a minimum) by amounts stipulated in Schedule 2 (and amounts required to satisfy the Nova Scotia Block). Therefore, if NLH takes delivery of an amount less than the amounts in Schedule 2 (their 156-week forecast is less than the amounts originally noted in Schedule 2), this will create a deferred component and will form part of the Residual Block.

  The Residual Block can be used by MFC for the purpose of making non-firm sales and contracted commitments. The Residual Block will be restricted by certain variables including the capacity of the MF Plant, limitations related to the Water Management Agreement, hydrological conditions, etc.

  MFC that has the ability to monetize the Residual Block by selling the energy to external third parties however, regardless of what MF does with this energy, NLH still has rights to its energy as it is part of the enforceable fixed quantity it has rights to per Schedule 2.

- Within 30 days following the end of the calendar year, NLH has the ability to decide whether it would like to monetize a portion (or all) of its NLH Deferred Energy. For example, if the amount being deferred is in excess of any need corresponding to future risk (given that NLH should not be arbitrarily deferring, whatever remains deferred at this point, should really be to mitigate future hydrological risk). If this is the case, NLH will monetize this energy.

Monetization can be viewed as NLH effectively selling a portion of its energy to third parties and generating consideration in exchange for this transfer. From an operational perspective, it makes no physical sense for NLH to take delivery of the energy and then transfer/transport it to a third party. As such, NLH notionally and momentarily takes possession of this energy in order to then immediately sell it to a third party. Once NLH "monetizes" energy, it has effectively absolved MF from its obligation to deliver this energy and it is at this point that MF has satisfied its obligation related to the delivery of this energy.

Note: Although MF has in effect already sold this energy throughout Y1 to third parties through the Residual Block and would only be remitting a payment to NLH at the end of Y1 (the actual sale doesn't happen once NLH monetizes, but rather once NLH monetizes, they earn the right to that consideration) – this does not suggest that revenue should necessarily be recognized throughout the year as MFC produces and sell it. This is due to the fact that the obligation to NLH is not yet satisfied until the point in which NLH agrees to monetize the energy.

- To the extent energy remains deferred (not monetized), NLH may "call" upon this energy in any future periods within the 57 year term (NLH has "makeup rights"). Given that NLH has the ability to "make up" for deficiencies (quantities not taken in past periods) in future periods, MFC has a performance obligation to deliver those quantities at NLH's request. Therefore this amount cannot be recognized in revenue unless and until:
    - It is delivered to NLH (NLH makes up the volumes)
    - Breakage principles indicate it is appropriate to recognize revenue (the likelihood that NLH will exercise its right for deficient volumes becomes remote).

Note 20 – For capacity, the value of which, to Hydro, is not considered to change over the life of the contract, would be recognized straight-line in relation to the time elapse of the term. The output method faithfully depicts MFC's performance towards complete satisfaction of capacity.

Note: Management also considered if the O&M fees could be recognized using the "right to invoice" practical expedient whereby if the vendor's right to consideration from a customer corresponds directly with the value to the customer of the vendor's performance completed to date, revenue could be recognized by reference to the invoiced amount per IFRS 15.B16. However, the O&M fees are only one component of the entire invoice and they do not relate to a separate performance obligation, rather they relate to the provision of both energy and capacity. The other charges on the invoice will not align with performance. Therefore, as the amount of consideration on each invoice will not align with performance completed to date for any of the identified performance obligations, that expedient does not apply.

Conclusion

Based on the above analysis, the MF PPA between MFC and NLH has commercial substance, contains three performance obligations and should be recorded in accordance with IFRS 15. Revenue for the entire contract, excluding immaterial variable costs or variable costs eligible for the variable consideration allocation exception (e.g. O&M and Water Rental), will be forecasted and allocated 54.34% to Energy, including GHG Credits, and 45.66% to Capacity. The Energy portion will be further allocated based on the GWh outlined in Schedule 2 plus forecasted Commissioning Period Block Energy, if any. The Capacity portion will be recognized evenly over the term of the contract. The variable costs eligible for the allocation will be recognized as earned.

Recognition of Energy will commence in accordance with the MF PPA's Commissioning Period terms as outlined in Article 3.3.

Recognition of Capacity will commence upon completion of testing activities required to demonstrate that all four units of the MF Plant are ready to provide Energy and Capacity.

Contract Cost

IFRS 15 allows for incremental costs of obtaining a contract (15.91) and costs incurred fulfilling a contract (15.95) to be recognized as contract assets. Management has performed a review of its incremental costs and did not identify any incremental contract costs of obtaining a contract and any costs incurred to fulfill a contract that did not fall within the scope of another standard.

Appendix 1: Other applicable agreements

GIA

Parties: LTC (supplier), MFC (customer), and the NLH, in its capacity as the Newfoundland and Labrador System Operator (transmission system operator).

Term: Commencing at the time commissioning occurs on the Commissioning Date and ending the earlier of i) the end of the term of the PPA; ii) the end of the earlier of the LTA Service Life and the MF Plant Service Life, provided that the obligation to make LTA payments shall continue until 50 years following the Commissioning Date; and iii) by written agreement of the parties (subject to approval of the lenders). Given that the PPA term and the obligation to make LTA payments are a minimum of 50 years, the term has been forecasted to be 50 years

Summary: The agreement provides for the construction, operation and maintenance of Labrador Transmission Assets ('LTA'), in accordance with Good Utility practices, by LTC to enable interconnection of the Muskrat Falls hydroelectric facility (MF Plant) with the Labrador Island Link ('LIL'), Churchill Falls hydroelectric facility and NLH's Labrador transmission assets (2.1(a)). In return for the interconnection service LTC receives full cost recovery of the construction costs (including sustaining costs) and operating and maintenance costs of LTA plus an 8.4% rate of return (Schedule 1, Section 1) paid for by MFC in the form of LTA Payments (8.1). MFC ultimately recovers the LTA Payments, as well as all costs and a return on investment associated with the MF PPA, from NLH through Base Block Payments under the MF PPA.

TFA

Parties: LIL LP, LIL Opco (supplier) and NLH (customer)

Term: Commencing at the time commissioning occurs on the Commissioning Date and ending the earlier of i) five years following the date on which the financing is paid in full; ii) 15 years following the date the Loan Guarantee is released or expires; iii) such date as may be provided for in the LIL Remedies Agreement; and iv) written agreement of the parties (subject to the approval of the lenders) (9.2).

Summary: The agreement establishes the terms and conditions under which NLH will pay Opco TFA payments to cover operating, maintenance and rent costs related to the LIL.

LIL Lease

Parties: LIL LP (supplier), LIL Opco (customer) and NLH

Customer: LIL LP (Note, NLH is party to the agreement due to the LIL Remedies Agreement)

Term: Commencing at the time commissioning occurs on the Commissioning Date and ending the earlier of i) the later of the date which is one month prior to the end of the LIL Service Life and five years following the date on which the financing is paid in full; ii) January 1, 2075; iii) such date as may be provided for in the LIL Remedies Agreement; and iv) written agreement of the parties (subject to the approval of the lenders) (11.2). (Currently the term is assumed to be 50 years, ending December 31, 2070 however, this estimate is under review)

Summary: The agreement provides for full cost recovery of the construction costs (including sustaining costs) of the Labrador-Island Link ('LIL') to LIL LP plus a required rate of return paid for by LIL Opco in the form of Rent payments (3.1). In return, LIL LP will assign the LIL assets and rights to LIL Opco for the term (2.1) and LIL Opco will assume responsibility for operating and maintaining the LIL in a 'good and reasonable state of repair consistent with Good Utility Practice' (4.2).

Multi Party Pooling Agreement

Parties: LIL LP, LIL Opco, NSP Maritime Link Corporation, LTC, NLH and NLH in its capacity as the Newfoundland and Labrador System Operator ('NLSO')

Customer: Users of the Newfoundland and Labrador Transmission System

Term: Execution of each parties to the agreement until December 31, 2067 unless terminated with consent of all parties (2.2).

Summary: The agreement provides for the assignment of operational control from the asset owners to the NLSO to facilitate use of the integrated transmission system (2.1).

Appendix 2: NLH 2019 Compliance Filing, Schedule 4.2

The 2019 Compliance Filing represents NLH's existing PUB approved rates. The Cost of Service Methodology used to prepare these rates were presented to the PUB during a hearing to review how NLH's rates are to be calculated once the MF Plant comes on line.

The Island Interconnect System Load Factor (presented in schedule 4.2 of the 2019 Compliance Filing) calculates how efficient rate payers use the system and provides a cost allocation on that basis (energy vs capacity). Using the Island Interconnected rate, MFC will allocate 54.34% of the transaction price to Energy and 45.66% to Capacity.

Schedule 4.2
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NEWFOUNDLAND AND LABRADOR HYDRO
2019 Test Year Compliance Cost of Service Study - for Rate Setting

System Load Factor

Line No.	1	2	3	4	5	6
		Island Interconnected	**Island Isolated**	**Labrador Isolated**	**L'Anse au Loup**	**Labrador Interconnected**
1	Sales+Losses for System Load Factor (MWh)	7,201,672	7,518	46,129	27,027	2,969,637
2	Hours in Year	8,760	8,760	8,760	8,760	8,760
3	Average Demand (kW)	822,109	858	5,266	3,085	339,000
4	Coincident Peak at Generation (kW)	1,513,022	1,968	8,870	6,090	435,825
5	System Load Factors	54.34%	43.61%	59.37%	50.66%	77.78%

Appendix 3: Revenue Recognition (Forecast 08-2020)

					Rev, Excluding Allocation Exemption			Allocation Exemption	Total		
Year/Period		Schedule 2 GWh	Island GWh	Lab GWh	Total Energy Revenue	Capacity	Revenue Recognition	Revenue Recognition	Total Energy Revenue	Capacity	Revenue Recognition
2020 Aug - Dec	Precom		-	11	73,283,119	-	73,283,119	9,317,718	82,600,837	-	82,600,837
2021 Jan - Jun	Precom		164	98	247,757,363	-	247,757,363	13,793,912	261,551,275	-	261,551,275
2021 July - Dec	Year 1	1,133	165	15	229,568,612	255,616,615	485,185,227	32,786,729	247,325,086	270,646,870	517,971,956
2022	Year 2	2,002	2,002	668	437,843,756	511,233,230	949,076,986	64,748,296	473,027,980	540,797,302	1,013,825,282
2023	Year 3	1,948	1,948	436	390,963,029	511,233,230	902,196,258	66,569,329	427,136,802	541,628,785	968,765,587
2024	Year 4	2,024	2,024		331,957,013	511,233,230	843,190,243	67,946,751	368,879,278	542,257,717	911,136,995
2025	Year 5	2,132	2,132		349,670,135	511,233,230	860,903,365	70,066,860	387,744,466	543,225,758	930,970,225
2026	Year 6	2,241	2,241		367,547,266	511,233,230	878,780,496	72,390,425	406,884,223	544,286,698	951,170,921
2027	Year 7	2,317	2,317		380,012,055	511,233,230	891,245,285	74,604,769	420,552,287	545,297,768	965,850,055
2028	Year 8	2,392	2,392		392,312,834	511,233,230	903,546,064	76,606,132	433,940,606	546,211,590	980,152,196
2029	Year 9	2,468	2,468		404,777,623	511,233,230	916,010,853	78,867,908	447,634,445	547,244,317	994,878,761
2030	Year 10	2,544	2,544		417,242,412	511,233,230	928,475,642	81,343,059	461,444,231	548,374,471	1,009,818,701
2031	Year 11	2,703	2,703		443,320,063	511,233,230	954,553,293	84,101,048	489,020,572	549,633,768	1,038,654,341
2032	Year 12	2,863	2,863		469,561,724	511,233,230	980,794,954	86,787,999	516,722,323	550,860,630	1,067,582,953
2033	Year 13	2,938	2,938		481,862,503	511,233,230	993,095,733	88,889,082	530,164,830	551,819,985	1,081,984,815
2034	Year 14	3,014	3,014		494,327,292	511,233,230	1,005,560,522	91,052,929	543,805,453	552,807,997	1,096,613,451
2035	Year 15	3,090	3,090		506,792,081	511,233,230	1,018,025,311	93,295,916	557,489,082	553,832,145	1,111,321,227
2036	Year 16	3,166	3,166		519,256,870	511,233,230	1,030,490,100	95,512,234	571,158,218	554,844,116	1,126,002,333
2037	Year 17	3,242	3,242		531,721,659	511,233,230	1,042,954,889	97,454,731	584,678,560	555,731,060	1,140,409,620
2038	Year 18	3,317	3,317		544,022,437	511,233,230	1,055,255,667	98,943,243	597,788,196	556,410,715	1,154,198,910
2039	Year 19	3,393	3,393		556,487,227	511,233,230	1,067,720,456	101,100,089	611,425,015	557,395,530	1,168,820,545
2040	Year 20	3,469	3,469		568,952,016	511,233,230	1,080,185,245	103,589,897	625,242,766	558,532,377	1,183,775,142
2041	Year 21	3,545	3,545		581,416,805	511,233,230	1,092,650,034	105,427,976	638,706,367	559,371,644	1,198,078,010
2042	Year 22	3,621	3,621		593,881,594	511,233,230	1,105,114,824	108,421,863	652,798,034	560,738,652	1,213,536,686
2043	Year 23	3,696	3,696		606,182,372	511,233,230	1,117,415,602	111,009,814	666,505,105	561,920,311	1,228,425,416
2044	Year 24	3,793	3,793		622,091,379	511,233,230	1,133,324,609	113,838,410	683,951,172	563,211,848	1,247,163,020
2045	Year 25	3,859	3,859		632,916,065	511,233,230	1,144,149,294	116,435,742	696,187,247	564,397,790	1,260,585,036
2046	Year 26	3,916	3,916		642,264,656	511,233,230	1,153,497,886	118,999,222	706,928,834	565,568,275	1,272,497,108
2047	Year 27	3,972	3,972		651,449,238	511,233,230	1,162,682,468	121,601,280	717,527,373	566,756,374	1,284,283,747
2048	Year 28	4,029	4,029		660,797,830	511,233,230	1,172,031,059	124,345,671	728,367,267	568,009,463	1,296,376,730
2049	Year 29	4,072	4,072		667,850,276	511,233,230	1,179,083,506	131,287,913	739,192,128	571,179,291	1,310,371,419
2050	Year 30	4,072	4,072		667,850,276	511,233,230	1,179,083,506	137,503,678	742,569,775	574,017,409	1,316,587,184
2051	Year 31	4,072	4,072		667,850,276	511,233,230	1,179,083,506	145,127,972	746,712,816	577,498,662	1,324,211,478
2052	Year 32	4,072	4,072		667,850,276	511,233,230	1,179,083,506	150,511,744	749,638,358	579,956,892	1,329,595,250
2053	Year 33	4,072	4,072		667,850,276	511,233,230	1,179,083,506	154,358,737	751,728,814	581,713,429	1,333,442,243
2054	Year 34	4,072	4,072		667,850,276	511,233,230	1,179,083,506	156,711,099	753,007,087	582,787,518	1,335,794,605
2055	Year 35	4,072	4,072		667,850,276	511,233,230	1,179,083,506	159,120,348	754,316,273	583,887,581	1,338,203,854
2056	Year 36	4,305	4,305		706,064,695	511,233,230	1,217,297,925	162,418,257	794,322,776	585,393,406	1,379,716,182
2057	Year 37	4,345	4,345		712,625,110	511,233,230	1,223,858,340	164,300,759	801,906,143	586,252,956	1,388,159,099
2058	Year 38	4,385	4,385		719,185,526	511,233,230	1,230,418,755	166,314,303	809,560,718	587,172,340	1,396,733,058
2059	Year 39	4,425	4,425		725,745,941	511,233,230	1,236,979,171	168,459,749	817,286,968	588,151,951	1,405,438,919
2060	Year 40	4,465	4,465		732,306,356	511,233,230	1,243,539,586	171,935,579	825,736,150	589,739,015	1,415,475,165
2061	Year 41	4,505	4,505		738,866,771	511,233,230	1,250,100,001	175,555,506	834,263,634	591,391,874	1,425,655,508
2062	Year 42	4,545	4,545		745,427,187	511,233,230	1,256,660,417	179,743,412	843,099,757	593,304,072	1,436,403,829
2063	Year 43	4,585	4,585		751,987,602	511,233,230	1,263,220,832	183,026,291	851,444,089	594,803,034	1,446,247,123
2064	Year 44	4,625	4,625		758,548,017	511,233,230	1,269,781,247	186,380,082	859,826,954	596,334,375	1,456,161,329
2065	Year 45	4,665	4,665		765,108,433	511,233,230	1,276,341,662	189,806,516	868,249,293	597,898,885	1,466,148,178
2066	Year 46	4,705	4,705		771,668,848	511,233,230	1,282,902,078	193,307,365	876,712,070	599,497,373	1,476,209,443
2067	Year 47	4,745	4,745		778,229,263	511,233,230	1,289,462,493	196,884,448	885,216,272	601,130,669	1,486,346,941
2068	Year 48	4,785	4,785		784,789,678	511,233,230	1,296,022,908	199,197,078	893,033,370	602,186,615	1,495,219,986
2069	Year 49	4,825	4,825		791,350,094	511,233,230	1,302,583,324	202,898,021	901,604,878	603,876,466	1,505,481,345
2070	Year 50	4,865	4,865		797,910,509	511,233,230	1,309,143,739	208,091,938	910,987,668	606,248,009	1,517,235,677
2071	Year 51	2,038	3,006		335,947,386	255,616,615	591,564,001	102,899,046	391,862,728	302,600,319	694,463,047
	Total	182,144	182,308	1,228	30,420,952,375	25,561,661,492	55,982,613,867	6,455,688,877	33,939,466,647	28,498,836,098	62,438,302,745

Appendix 4: Base Block Capital Cost Recovery Adjustment

IFRS 15.7 notes that a contract may be partially within the scope of IFRS 15 and partially in the scope of other standards (e.g. IFRS 9). When this is the case, if other standards specify how to separate and/or initially measure one or more parts of the contract, then an entity first applies the separation and/or measurement requirements of those Standards. The amounts of the parts of the contract that are initially measured in accordance with other Standards are excluded from the transaction price.

In accordance with MF PPA Schedule 1, Section 4, if in any month it is projected that MFC will have insufficient funds to enable it to meet all of its obligations under its Financing Agreements, a Base Block Capital Cost Recovery Adjustment ("BBCCRA") will be made to ensure additional funding is received. The additional funding is provided by NLH, is mandatorily reimbursable and accrues interest equal to NLH's prevailing regulated cost of capital, also known as NLH's weighted average cost of capital ("WACC"). Reimbursement of the BBCCRA, including reimbursement of accrued interest, is subject to MFC available cash flow with any unpaid balance, including accrued interest, carrying forward to subsequent periods. This contractual obligation meets the IAS 32 definition of a financial liability to delivery cash to another entity. IAS 32.11, defines a financial liability as *any liability that is:*

(a) a contractual obligation:

i. to deliver cash or another financial asset to another entity; or

ii. to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or

(b) a contract that will or may be settled in the entity's own equity instruments and is:

i. a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or

ii. a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. Also, for these purposes the entity's own equity instruments do not include puttable financial instruments that are classified as equity instruments in accordance with paragraphs 16A and 16B, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 16C and 16D, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments.

The purpose of the BBCCRA is to ensure MFC has sufficient cash available to meet its obligations under its Financing Agreements, default of which results in a default to the MF PPA (14.1(g)). To do so, NLH is contractually providing MFC with a loan receivable. As such, the BBCCRA meets the definition of a MFC financial liability – a contractual obligation to deliver cash or another financial asset. The objective of IAS 32 *is to establish principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities.* IAS 32 is complemented by IFRS 9 which outlines the principles for recognizing and measuring financial assets and financial liabilities. As such, the BBCCRA should be recognized and measured under IFRS 9 initially at fair value and subsequently at amortized cost in accordance with IFRS 9.4.1.2 as both conditions are met and with interest expense calculated using the effective interest rate method with gains and losses recognized in profit or loss when the liability is derecognized or reclassified.

Transmission Funding Agreement Under IFRS 15

IFRS 15 Overview

IFRS 15 was issued in May 2014 and applies to annual reporting periods beginning on or after January 1, 2018. The standard replaces *IAS 11: Construction Contracts, IAS 18: Revenue, IFRIC 13: Customer Loyalty Programs, IFRIC 15: Agreements for the Construction of Real Estate, IFRIC 18: Transfers of Assets from Customers, SIC-31: Revenue – Barter Transactions Involving Advertising Services*.

Contracts with customers are out of the scope of the standard if they fall within the scope of *IFRS 16: Leases, IFRS 9: Financial Instruments, IFRS 10: Consolidated Financial Statements, IFRS 11: Joint Arrangements, IAS 27: Separate Financial Statements, IAS 28: Investments in Associates and Joint Ventures, IFRS 4: Insurance Contracts*, and non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

IFRS 15 applies the following five steps:

1. Identify the contract(s) with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

The following position paper will assess the Transmission Funding Agreement - within the scope of IFRS 15, as well as the implications surrounding the timing and measurement of revenue.

Note – Please refer to Transmission Funding Agreement ('TFA') Article 1 – Interpretation for capitalized terms reference throughout this paper.

Relevant Guidance

- IFRS 15 – Revenue from contracts with customers ('IFRS 15')
- EY: International GAAP 2019 – Volume 2
- Deloitte: iGAAP 2018 – Volume A, Part 1[1]
- AICPA Audit and Accounting Guide: Revenue Recognition - Chapter 15 – Power and Utilities ("AICPA Guide")

[1] Please note, while the 2018 version has been used, discussions were had as to whether any material differences exist between the 2018 versions of iGAAP and later versions as it relates to matters contemplated in this memo – no such differences were identified.

Key Details

Contract: TFA

Parties: Labrador-Island Link Limited Partnership ('LIL LP' or the 'Partnership'), Labrador-Island Link Operating Corporation ('LIL Opco') and Newfoundland and Labrador Hydro ('NLH')

Customer: NLH

Note, LIL LP is party to the agreement due to the LIL Remedies Agreement (see Appendix 1 for more details) and as owner and developer of the LIL, to accept responsibility to finance the construction, interconnection and Sustaining Costs in accordance with 2.1 (b). The financing responsibilities include all upgrades and improvements to the Island Interconnected System to facilitate operation of the LIL whereby NLH shall be the legal and beneficial owner of some such upgrades. The Island Interconnected System is the property of NLH. In order to interconnect and operate the LIL, certain upgrades were necessary to the assets owned by NLH. The Partnership is responsible for financing and performing these upgrades, which would enable to Partnership to perform its obligations to LIL Opco under the LIL Lease. This clause is noting the owner of these necessary upgrades. No consideration is paid to the Partnership by NLH under this agreement for these upgrades and therefore it does not impact the IFRS 15 analysis below.

Term: Commencing at the time commissioning occurs on the Commissioning Date and ending the earlier of i) five years following the date on which the financing is paid in full; ii) 15 years following the date the Loan Guarantee is released or expires; iii) such date as may be provided for in the LIL Remedies Agreement; and iv) written agreement of the parties (subject to the approval of the lenders) (9.2). Currently the term is assessed to be equal to the minimum enforceable contract term of 50 years (please refer to discussion in Step 1 section to support this conclusion).

Summary: This agreement does not grant operational control or transmission service rights over the LIL to NLH rather the agreement establishes the terms and conditions under which NLH will pay LIL Opco TFA Payments to cover operating, maintenance and Rent costs related to the Labrador Island Link ('LIL') to make the LIL available for use by NLH.

Background

The TFA was executed on November 29, 2013 between LIL LP, LIL Opco and NLH. The TFA provides for full cost recovery to LIL Opco for the construction, sustaining and operating costs of the LIL from NLH in the form of TFA payments. NLH requires the availability and use of the LIL in order to transport energy from Muskrat Falls to the island of Newfoundland. As such NLH has entered into the TFA for use of the LIL and in exchange pays LIL Opco consideration.

Upon adoption of IFRS 16 in January 2019, accounting position paper 'LCP19 - 003 - TFA and LIL Lease IFRS 16 Assessment Final' was prepared to assess implications surrounding the recognition and measurements of the TFA upon implementation of that standard. The paper concluded that the TFA was a revenue contract, thus outside of the scope of IFRS 16.

Analysis of the Contract– Steps 1 through 5

Step 1: Identify the contract(s) with a customer

IFRS 15.6 states that *a customer is a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.* The TFA was executed to ensure development of LIL as betterment to the Bulk Electrical System so that NLH is able to purchase Energy and Capacity from the Muskrat Falls Plant ('MF Plant') to supply to its NL Customers. In the simple terms, the TFA provides for the availability and use of the LIL (see step 2 for full analysis). As use of the LIL provides NLH with the ability to purchase energy and capacity from the MF Plant and deliver such energy and capacity to NLH's NL Customer, which is the output of LIL Opco's normal operations, it is clear that for the purpose of this contract, NLH is a customer.

IFRS 15.9 sets out the specific criteria to be met for an arrangement to be considered a contract with a customer:

An entity shall account for a contract with a customer that is within the scope of this Standard only when all of the following criteria are met:

(a) the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;

The TFA arrangement between LIL Opco and NLH, for services related to LIL, is covered by a contract which is in writing, legally enforceable and signed by both parties.

(b) the entity can identify each party's rights regarding the goods or services to be transferred;

The rights of both parties regarding the LIL are clearly stated throughout the contracts which make up the arrangement, predominately in Article 2 – Purpose, Article 4 – Other and Article 6 - Reservation.

(c) the entity can identify the payment terms for the goods or services to be transferred;

TFA Article 3 - TFA Payments details the pricing and the payment terms under the contract.

(d) the contract has commercial substance (ie the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and

LIL Opco will generate cash flows as a result of the TFA Payment, which includes recovery of operating and maintenance costs, Rent and $30,000 per year. NLH's obligation to pay LIL Opco is absolute, unconditional and irrevocable, and shall not be subject to any reductions under any circumstances whatsoever (3.5). Therefore the contract has commercial substance.

The term is currently assessed to be 50 years, see below for further analysis.

As there are significant cash flows, an extensive contract term and firm commitment for payment, the contract has commercial substance.

> (e) *it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession (see paragraph 52).*

NLH is a related party with no history of collectability issues. NLH's ability and intent to continue to pay on-time and in full is highly probable and heighten by Order in Council (OC2013-343) which calls for full recovery from NLH.

As all of the criteria identified above have been met, the LIL Lease is accounted for under IFRS 15.

Contract term

A question also arises as it relates to contract term, as determining the term of the contract is an important step in the revenue recognition process. Contract term is determined on the basis of present enforceable rights and obligations. Contracts do not include optional renewal periods or optional deliveries of goods services.

The TFA became effective in November 2013 (9.1) however, delivery of services under the TFA cannot be provided until LIL Opco obtains control of the LIL. Control of the LIL will transfer to LIL Opco upon Commissioning of the LIL. As such, the term of the TFA will commence upon Commissioning of the LIL – please refer to "Step 5 – Revenue Recognition" for further discussion/analysis on this, as this consideration does not impact contract term, but rather revenue recognition).

The contract term terminates on the first occurrence of (9.2),

1) five years following the date on which the Financing is paid in full;
2) 15 years following the date the Loan Guarantee is released or expires;
3) such date as may be provided for in the LIL Remedies Agreement; and
4) such date as provided by the Financing Parties

Based on the above terms, the "earliest" would be "*5 years after the date on which Financing is Paid in Full",* however, it is currently widely known and anticipated that the debt will not be paid in full as originally scheduled, but rather will be refinanced to 2070 (i.e. as such the date the Financing will be paid in full will be 2070). As a result, it is expected that the period over which enforceable rights and obligations exist will be up to 2070, which results in a contractual term from inception (i.e. November 2013 – December 2070), which is an approximate term of 57 years.

In concluding on enforceable rights and obligations, termination rights must also be considered. To the extent that termination rights exist within a contract (e.g. to the extent the customer has the right to terminate within the contractually stipulated term, which in this case is 57 years), consideration is required as to whether the termination provisions are substantive. In accordance with Article 9.2, to terminate the contract, both parties must receive approval from the Financing Parties. If Financing is not yet paid in full, it may be unlikely that the Financing Parties agree to terminate earlier than stipulated in Article 9.2. Substantive rights signify control but for a right to qualify as "substantive" the practical ability to exercise the right must exist. i.e. are there are any barriers (economic or otherwise) that prevent the holder from exercising the rights. Given the Financing Parties must approve the termination, if earlier than stipulated by the other clauses in 11.2, Opco does not have a substantive right to terminate and, for the purpose of this analysis, the termination clause does not impact the contract term.

If a default occurred, the default would fall under the LIL Remedies Agreement. There is no "penalty" to be paid upon default however Opco would be required to transfer its rights and obligations to NLH.

Based on the above analysis, it has been concluded that the contract term is currently assessed at 57 years.

Contract Combination and Modification Guidance Considerations

IFRS 15.17 An entity shall combine two or more contracts entered into at or near the same time with the same customer (or related parties of the customer) and account for the contracts as a single contract if one or more of the following criteria are met:

(a) the contracts are negotiated as a package with a single commercial objective;

(b) the amount of consideration to be paid in one contract depends on the price or performance of the other contract; or the goods or services promised in the contracts (or some goods or services promised in each of the contracts) are a single performance obligation in accordance with paragraphs 22–30.

It should be noted that the TFA was executed in November 29, 2013 alongside a number of other contracts. Given the fact that numerous contracts have been entered into amongst related parties around the same time, an analysis of the contract combination criteria has been completed as follows:

Contract **(further description provided in Appendix 1)**	**Date Entered Into**	**Supplier**	**Customer**
Muskrat Falls Purchase Power Agreement ('MF PPA')	11/29/13	Muskrat Falls Corporation ('MFC')	NLH
TFA	11/29/13	LIL OpCo	NLH
Generator Interconnection Agreement ('GIA')	11/29/13	Labrador Transmission Corporation	MFC
LIL Lease	11/29/13	LIL LP	LIL Opco

As demonstrated in the table above, there are no contracts that have been entered into (from a service provider perspective) by the same counterparty that would then require consideration under the contract combination guidance, as such, this guidance has not been further assessed here.

In addition, it should be noted that the TFA was executed in November 2013 alongside 1 other agreement with the same party, the LIL Remedies Agreement. The LIL Remedies Agreement has no commercial substance but rather outlines remedies that could arise under default by one of LIL LP, LIL Opco or NLH under either of the LIL Lease or TFA.

The Interim TFA (see Appendix 1) between LIL and NLH is not a modification to or combination with the TFA - see LCP 18 – Financing Costs and Interim TFA for assessment and conclusion.

Step 2: Identify the performance obligations in the contract

Per IFRS 15.22 *At contract inception, an entity shall assess the goods or services promised in a contract with a customer and shall identify as a performance obligation each promise to transfer to the customer either:*

(a) a good or service (or a bundle of goods or services) that is distinct; or

(b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer (see paragraph 23).

In order to qualify as a distinct good or service, IFRS 15.27 requires that both of the following criteria are met:

(a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (ie the good or service is capable of being distinct); and
(b) the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (ie the good or service is distinct within the context of the contract).

In assessing performance obligations, it is important to: 1) determine whether an entity is a principal or an agent in the transaction, as this will affect the nature of the performance obligation and 2) identifying promised goods and services, specifically those that transfer a good or service to a customer.

As it relates to the TFA, the TFA is entered into by 3 counterparties – LIL LP, LIL Opco and NLH. The agreement notes that given that the parties which to ensure the development and improvement of the Bulk Electric System, and the fact that the LIL is integral to NLH's planned purchase and delivery of Energy and Capacity from the MF Plant – this agreement has been entered into. The "preamble" to the agreement also notes that as a result of the *LIL Assets Agreement* and the *LIL Lease*, LIL LP provided LIL Opco will all necessary rights to operate or cause to be operate the LIL.

While the preamble to the agreement suggests that the TFA is between LIL Opco and NLH (i.e. and the inclusion of the Partnership as party to the agreement is for the purposes of stipulating that the Partnership must provide LIL Opco with all necessary rights to enable LIL Opco to operate and maintain the LIL (item (e)), given the inclusion of LIL LP as party to the agreement and given the language included below in Section 2.1 of the TFA, additional assessment was deemed necessary.

Section 2.1 of the TFA ("Purpose") notes that the purpose of this agreement is to establish a mechanism by which NLH shall pay to Opco the TFA Payments as consideration for:

Opco's commitment to:

(i) enter into the LIL Assets Agreement, the LIL Lease, the LIL Remedies Agreement and the MPPA; and

(ii) operate and maintain the LIL following the Commissioning Date in accordance with the provisions of this Agreement, the LIL Lease and the MPPA; and

The Partnership's commitment to:

(i) design, engineer, construct, Commission and obtain and service the Financing for the LIL in a timely manner;

(ii) enter into the LIL Assets Agreement, the LIL Lease, the LIL Remedies Agreement and the MPPA;

(iii) interconnect the LIL with the LTA and with the existing transmission facilities of NLH, each in accordance with Good Utility Practice and applicable interconnection procedures; and

(iv) pay all Sustaining Costs.

As such, given that Section 2.1 (b) specifically makes reference to the fact that NLH's payment is in consideration of certain commitments of the Partnership, the question arises as to whether LIL LP is also a party and specifically a principal in this arrangement, or a portion thereof.

In order to further analyze the principal vs. agent analysis the nature of the promise must first be analyzed. IFRS 15.B34A notes that to do so, an entity must first:

- identify the specified goods or services to be provided to the customer; and
- assess whether it controls each specified good or service before that good or service is transferred to the customer.

Identifying Promise Goods and Services

When identifying the Performance Obligations, the first step is to identify the goods and services contained in the agreement. Article 2.1(a) specifies that LIL Opco must ensure the LIL is operating, maintained and available to provide services as required by NLH. This includes entering into the LIL Lease, Multi-Party Pooling Agreement ('MPPA'), LIL Remedies and LIL Asset Agreement. In addition, Article 4 describes general covenants, operational and maintenance covenants and Ancillary Agreements obligations to be carried out by LIL Opco. While these are promises in the contract, not all promises transfer to the customer. Certain promises are simply activities that must be undertaken in order to fulfill the promises in the contract. Promised goods or services do not include activities that an entity must undertake to fulfill a contract unless those activities transfer a good or service to a customer. For example, a services provider may need to perform various administrative tasks to set up a contract. The performance of those tasks does not transfer a service to the customer as the tasks are performed. Therefore, those setup activities are not promised goods or services in the contract with the customer.

In this case, the promises to enter into the LIL Lease, MPPA, LIL Remedies and LIL Asset Agreement are akin to "set-up" activities, do not result in the transfer of a good or service to a customer and therefore are not further assessed as part of performance obligation identification. Similarly, general covenants, operational and maintenance covenants and Ancillary Agreements obligations are activities that must be undertaken in order to fulfill the promises in the contract and also do not form part of the performance obligation.

Promised Good or Service?	**Does the promised good or service transfer to the customer?**	**Is the promised good or service capable of being distinct? [IFRS 15.27.a]**	**Is the promised good or service distinct in the context of the contract? [IFRS 15.27.b]**	**Conclusion:**
Availability and use of the LIL (i.e. standing ready to provide transmission services)	Yes	TBD – refer below	TBD – refer below	TBD – refer below
Operating and Maintaining the LIL	No	N/A	N/A	Not a transferring promised good or services – therefore, not a performance obligation.
Entering into the LIL Lease , MPPA, LIL Remedies and LIL Asset Agreement	No	N/A	N/A	Not a transferring promised good or services – therefore, not a performance obligation.
General covenants	No	N/A	N/A	Not a transferring promised good or services – therefore, not a performance obligation.
Operational and maintenance covenants	No	N/A	N/A	Not a transferring promised good or services – therefore, not a performance obligation.
Ancillary Agreements obligations	No	N/A	N/A	Not a transferring promised good or services – therefore, not a performance obligation.

As part of the review of promises in the contract, consideration was also given as to whether promises existed for additional or optional services, that in turn may be considered "options for additional goods and services" and require assessment as material rights (i.e. which in turn may result in incremental performance obligations). No such promises were identified. In addition, we considered whether renewal options exist that may also fall in the scope of material rights. No such rights were identified.

The next step involves determining whether the transferring goods and services promised in the contracts are capable of being distinct in the context of IFRS 15.27 (a). In assessing whether a promised good or service is capable of being distinct we have assessed the following:

Promised Good or Service?	**Can the customer benefit from the good or service on its own?**	**Can the customer benefit from the good or service in conjunction with other readily available**	**Conclusion**

			resources?	
	Can the good or service be used, consumed, sold for an amount greater than scrap value?	*Can the good or service be held in a way that generates economic benefits?*	*Is the good or service regularly sold separately?*	
Availability and use of the LIL (i.e. standing ready to provide transmission services)	Yes	Yes – can provide transmission services through the NLSO to customers	Yes	Capable of being distinct

Therefore based on our analysis to date conclusions are as follows:

Promised Good or Service?	**Does the promised good or service transfer to the customer?**	**Is the promised good or service capable of being distinct? [IFRS 15.27.a]**	**Is the promised good or service distinct in the context of the contract? [IFRS 15.27.b]**	**Conclusion:**
Availability and use of the LIL	Yes	Yes	TBD – refer below	TBD – refer below

Per IFRS 15.29: *Factors that indicate that an entity's promise to transfer a good or service to a customer are not separately identifiable (in accordance with paragraph 27(b)) include, but are not limited to, the following:*

- *(a) the entity provides a significant service of integrating the goods or services with other goods or services promised in the contract into a bundle of goods or services that represent the combined output or outputs for which the customer has contracted. In other words, the entity is using the goods or services as inputs to produce or deliver the combined output or outputs specified by the customer. A combined output or outputs might include more than one phase, element or unit.*
- *(b) one or more of the goods or services significantly modifies or customises, or are significantly modified or customised by, one or more of the other goods or services promised in the contract.*
- *(c) the goods or services are highly interdependent or highly interrelated. In other words, each of the goods or services is significantly affected by one or more of the other goods or services in the contract. For example, in some cases, two or more goods or services are significantly affected by each other because the entity would not be able to fulfil its promise by transferring each of the goods or services independently.*

As concluded above, the TFA has one service which is capable of being distinct (availability and use of the LIL). We will now analyze the criteria in IFRS 15.29 to determine the promise is distinct in the context of the contract as follows:

Promised Good or Service?	**Is there a significant service of integration? [IFRS 15.29 (a)]**	**Do one or more of the good or services significantly modify or customize another? [IFRS 15.29 (b)]**	**Are the goods or services highly interdependent? [IFRS 15.29 (c)]**	**Conclusion:**

Availability and use of the LIL (i.e. standing ready to provide transmission services)	No – it is a stand-alone service	No – it is a stand-alone service	No – it is a stand-alone service	Distinct in the context of the contract

On the basis of the above analysis we have concluded as follows:

Promised Good or Service?	**Does the promised good or service transfer to the customer?**	**Is the promised good or service capable of being distinct? [IFRS 15.27.a]**	**Is the promised good or service distinct in the context of the contract? [IFRS 15.27.b]**	**Conclusion:**
Availability and use of the LIL (i.e. standing ready to provide transmission services)	Yes	Yes	Yes	Separate performance obligation

Availability and use of the LIL has been identified as the service contained in the contract. That is, it is a promise to provide NLH with the ability to use the LIL assets as and when NLH decides.

The final step is to assess whether the distinct good or service qualifies as a series of distinct goods or services. In order to qualify as a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer, both of the following criteria must be met (IFRS 15.23):

a) *each distinct good or service in the series that the entity promises to transfer to the customer would meet the criteria in paragraph 35 to be a performance obligation satisfied over time; and*

Where by IFRS 15.35 states, *an entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:*

(a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs (see paragraphs B3–B4);
(b) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced (see paragraph B5); or
(c) the entity's performance does not create an asset with an alternative use to the entity (see paragraph 36) and the entity has an enforceable right to payment for performance completed to date (see paragraph 37).

In summary, paragraph 35 is met when the customer simultaneously receives and consumes the benefits from the entity's performance, which is the case of the availability and use of the LIL as NLH benefits from LIL Opco providing availability and use of the LIL transmission assets: <u>Criterion met.</u>

b) *in accordance with paragraphs 39–40, the same method would be used to measure the entity's progress towards complete satisfaction of the performance obligation to transfer each distinct good or service in the series to the customer.*

These criteria have been assessed as follows:

Distinct Good or Service	**Are the distinct goods or services substantially the same? [IFRS 15.22.b]**	**Do the distinct goods or services have the same pattern of transfer to the customer? [IFRS 15.23]**		**Conclusion:**
		Would the criteria in IFRS 15.35 be met for over time recognition?	***Would the same method be used to measure progress towards satisfaction of the PO?***	
Availability and use of the LIL (i.e. standing ready to provide transmission services)	Yes	Yes – see Note 1	Yes – see Note 2	Yes – series guidance applies

Note 1: While each increment of time to provide access or use of an asset is distinct, the obligation is very much one of a stand-ready obligation. Given the nature of a stand-ready obligation, it is providing assurance over the availability of a good or service over a period of time, and therefore as further discussed and assessed in the “Step 5” section of this memo, the provision of the right to use an asset when and how a customer deems necessary meets the criteria in IFRS 15.35 (a) and is recognized over time. NLH both receives and consumes benefit from each monthly stand-ready obligation in the assurance that the LIL is available to it when and if needed or called upon throughout that month. In other words, NLH is consuming the benefit of the LIL Opco’s provision of the to use the LIL assets evenly throughout the period.

Note 2: As further discussed and assessed in the “Step 5” section of this memo, the measure of pprogress that most accurately depicts LIL Opco’s performance of each consecutive service of standing ready to provide availability and use of the LIL is an output measure of progress based on time. NLH does not benefit from LIL Opco’s standing ready any differently during one period than it does for any other period making a time-based measure appropriate for measuring progress toward completion.

The assessment of the measure of progress of a performance obligation is somewhat linked to the nature of the performance obligation. In the case of a promise or performance obligation to stand ready, the nature of a stand ready obligation will drive the measure of progress.

In order to assess a promise (or a series of promises) it is important to distinguish between a promise to deliver goods or services from a stand-ready obligation to deliver goods or services. In order to make this determination, an assessment should be completed as to whether:

- the promise is an obligation to provide one or more defined goods or services or
- an obligation to provide an unknown type or quantity of goods or services

While in either case the entity might be required to “stand ready” to deliver the good(s) or service(s) whenever called for by the customer or upon the occurrence of a contingent event, the fact that the entity will not know when or how extensively the customer will receive the entity’s good(s) or service(s) during the contract term may be a strong indicator that the entity is standing ready to perform

To assess this criterion in the context of this arrangement we have considered the following:

Promised Service	**Indicators of a stand-ready obligation**		**Conclusion**
	Is the promise to provide service on an "as needed basis"?	*Is there no discernible pattern of providing the services as they are provided on an "when and if needed" basis?*	
Availability and use of the LIL (i.e. standing ready to provide transmission services)	Yes – services is provided as needed by NLH	Yes - services are provided at the discretion of NLH, as and when needed with no discernible pattern	LIL Opco is standing ready to perform services

Assessing Control over Specified Goods or Services

IFRS 15.B35 notes that an entity *is a principal if it controls the specified good or service before that good or service is transferred to a customer. However, an entity does not necessarily control a specified good if the entity obtains legal title to that good only momentarily before legal title is transferred to a customer.*

As it relates to the specified good or service in the case of the TFA, this is the service of providing access to the LIL. Due to the rights assigned to LIL Opco in the *LIL Lease* agreement, it is clear that it is LIL Opco that controls the right to use the LIL and therefore, controls this service being provided to NLH.

To further substantiate this point, IFRS 15.B35A provides the following criteria which can be used to establish when an entity is a principal and is obtaining control:

An entity that is a principal obtains control of any of the following:	**Applicability**
A good or another asset from the other party that it then transfers to the customer.	N/A
A right to a service to be performed by the other party, which gives the entity the ability to direct that party to provide the service to the customer on the entity's behalf.	If this criterion were to be true, this would suggest that although LIL Opco is providing the service of access to NLH, it is LIL LP that has the ability to direct LIL Opco in the provision of the service to the customer. It is clear (through the terms of the LIL Lease) that LIL Opco has exclusive rights to the maintenance of transmission associated with the LIL. LIL LP does not have any discretion or ability to influence how and when LIL Opco operates the LIL and in turn, how and when the access service is being provided to NLH.
A good or service from the other party that it then combines with other goods or services in providing the specified good or service to the customer.	N/A

For completeness purposes, we have also considered the indicators in IFRS 15.B37 which is indicators that an entity controls a specified good or service before transfer to the customer:

Indicators of an entity acting as a principal	**Applicability**
The entity is primarily responsible for fulfilling the promise to provide the specified good or service.	This indicator is typically driven by who has responsibility for the acceptability of the specified good or service. In this case, as it relates to NLH's access to the LIL, it is LIL Opco that is ultimately responsible to ensure that NLH's access is provided as required and requested, in accordance with their specifications. If there were to be any issues that arise with this access, it would be LIL Opco that would be responsible for remedy here.
The entity has inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer.	N/A – given the nature of the promise is service.
The entity has discretion in establishing the price for the specified good or service.	The payment structure in the TFA (as discussed further in "*Step 3: Determine the Transaction Price*") is largely a cost recovery, meaning LIL Opco is charging to NLH the amounts that it is being charged in the LIL Lease. This would initially suggest that that LIL Opco does not have discretion in pricing. However, the consideration also includes an incremental rate of return, which is not at the discretion of LIL LP.

While there is a mix of indicators, judgement has been applied to conclude that ultimately LIL Opco is the principal in the transaction as LIL Opco ultimately has discretion and responsibility in how the service is being provided to NLH. NLH view LIL Opco has being primarily responsible for fulfillment and in the event any issues were to occur in the provision of services it would ultimately be LIL Opco that is responsible. LIL Opco (through the rights conferred in the LIL Lease agreement) has full operational control and discretion in how the LIL is used and has full responsibility for ensuring its maintenance and functionality. It has sole discretion in how the LIL is run and who is provided access to the asset (i.e. LIL LP has no discretion in directing LIL Opco in the fulfillment of these services).

LIL LP's involvement is indirect and passive in the context of the access services which are contemplated in the TFA. More specifically, in consideration Section 2.1(b) of the agreement again, the commitments to which the Partnership has committed to are those required in order to 1) ensure the underlying asset required exists and 2) to enter into the agreements required to be confer operational rights and controls to LIL Opco. The commitments listed within this section are not directly correlated with the provision of access to transmission services. As such, it is concluded that LIL Opco is the principal in this arrangement as it relates to the promise of providing for the availability and use of the LIL (i.e. standing ready to provide transmission services).

Step 3: Determine the transaction price

Per IFRS 15.47, transaction price can be defined as *"the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding* *amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both."*

When determining the transaction price, an entity shall consider the effects of all of the following (IFRS 15.48):

- *(a) variable consideration (see paragraphs 50–55 and 59);*
- *(b) constraining estimates of variable consideration (see paragraphs 56–58);*
- *(c) the existence of a significant financing component in the contract (see paragraphs 60–65);*
- *(d) non-cash consideration (see paragraphs 66–69); and*
- *(e) consideration payable to a customer (see paragraphs 70–72).*

Pricing for the duration of the contract is predominantly outlined in Article 3 - TFA Payments. In accordance with Article 3 - TFA Payments, NLH will pay equal monthly forecasted costs which are adjusted to actual costs on a quarterly basis. The transaction price contains fixed and variable components as follows,

<table>
<tr><th colspan="2">Payment Type</th><th>Fixed or Variable</th><th>If Fixed - Amount</th></tr>
<tr><td colspan="2">Cost recovery of operating and maintenance costs

Cost recovery related to operating and maintaining the LIL</td><td>Variable</td><td>N/A</td></tr>
<tr><td colspan="2">$30,000 per Operating Year</td><td>Fixed</td><td>$1.5M</td></tr>
<tr><td rowspan="5">Rent

Rent includes fixed and variable components See assessment LCP20-001-IFRS 15 Treatment of the LIL Lease for full analysis</td><td>Cost recovery of operating expenses to administer LIL LP

Cost recovery relating to operating expenses to administer LIL LP is a variable component consisting of annual audit fees, post office box rental, bank fees and intercompany labour (eg. contract compliance and monthly financial processing including preparation of monthly rent billings).</td><td>Variable</td><td>N/A</td></tr>
<tr><td>A rate of return ('ROR')

The ROR is a variable component which includes the rate of after tax-return on equity approved by the PUB (3.9) plus the annual cost of debt owed as a percentage, being interest expense divided by the debt principal (1.1).</td><td>Variable</td><td>N/A</td></tr>
<tr><td>Commercial depreciation of the LIL

Commercial depreciation of the LIL is fixed based on the Actual Capital Cost of $5 billion over the remaining Service Life (currently assessed at 50 years) of the LIL.</td><td>Fixed</td><td>$5 billion</td></tr>
<tr><td>Commercial depreciation of sustaining capital

Commercial depreciation of sustaining capital is a variable component consisting of all refurbishments, major overhauls and replacements, of a capital nature, for the Service Life of the LIL (currently assessed at 50 years).</td><td>Variable</td><td>N/A</td></tr>
<tr><td>Tax adjustment & tax payable

Taxes relates to costs recovery of any tax, fee levy, rental, duty, charge, royalty or similar charge by any federal, state, provincial, municipal, local, aboriginal or foreign government, including reimbursement of Class A income tax.</td><td>Variable</td><td>N/A</td></tr>
</table>

Per IFRS 15.53, LIL Opco is required to estimate the amount of variable consideration based on whichever of the following better predicts the ultimate consideration:

(a) The expected value — the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the amount of variable consideration if an entity has a large number of contracts with similar characteristics.
(b) The most likely amount — the most likely amount is the single most likely amount in a range of possible consideration amounts (ie the single most likely outcome of the contract). The most likely amount may be an appropriate estimate of the amount of variable consideration if the contract has only two possible outcomes (for example, an entity either achieves a performance bonus or does not).

Furthermore, once an estimate is determined, additional analysis is required to determine whether the "constraint on revenue recognition" should be applied. IFRS 15.56 *"An entity shall include in the transaction price some or all of an amount of variable consideration estimated in accordance with paragraph 53 only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved."* 15.57 goes on to outline circumstances where significant reversals in revenue recognized may occur:

In assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur once the uncertainty related to the variable consideration is subsequently resolved, an entity shall consider both the likelihood and the magnitude of the revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:

(a) the amount of consideration is highly susceptible to factors outside the entity's influence. Those factors may include volatility in a market, the judgement or actions of third parties, weather conditions and a high risk of obsolescence of the promised good or service.
(b) the uncertainty about the amount of consideration is not expected to be resolved for a long period of time.
(c) the entity's experience (or other evidence) with similar types of contracts is limited, or that experience (or other evidence) has limited predictive value.
(d) the entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar contracts in similar circumstances.
(e) the contract has a large number and broad range of possible consideration amounts.

Therefore, for all forms of variable consideration it is clear that under Step 3 of the model there is a requirement to estimate and constrain variable consideration for allocation in the transaction price and allocation as part of Step 4. As a general exception to this principal, Step 4 of the model provides an allocation exception whereby the variable in consideration may effectively be attributable to a distinct good or service in a contract [IFRS 15.84 – 85]. If this criterion is met (noted below), given the direct attribution, the principals of estimation and constraints from Step 3 of the model may not be required.

15.84 *Variable consideration that is promised in a contract may be attributable to the entire contract or to a specific part of the contract, such as either of the following:*

(a) one or more, but not all, performance obligations in the contract (for example, a bonus may be contingent on an entity transferring a promised good or service within a specified period of time); or

(b) one or more, but not all, distinct goods or services promised in a series of distinct goods or services that forms part of a single performance obligation in accordance with paragraph 22(b) (for example, the consideration promised for the second year of a two-year cleaning service contract will increase on the basis of movements in a specified inflation index).

15.85 *An entity shall allocate a variable amount (and subsequent changes to that amount) entirely to a performance obligation or to a distinct good or service that forms part of a single performance obligation in accordance with paragraph 22(b) if both of the following criteria are met:*

(a) the terms of a variable payment relate specifically to the entity's efforts to satisfy the performance obligation or transfer the distinct good or service (or to a specific outcome from satisfying the performance obligation or transferring the distinct good or service); and

(b) allocating the variable amount of consideration entirely to the performance obligation or the distinct good or service is consistent with the allocation objective in paragraph 73 when considering all of the performance obligations and payment terms in the contract.

Entities may need to exercise significant judgement to determine whether they meet the requirements to allocate variable consideration to specific performance obligations or distinct goods or services within a series. In assessing whether the payment relates specifically to an entity's efforts, an entity needs to consider the nature of its promise and how the performance obligation has been defined. In addition, the entity needs to clearly understand the variable payment terms and how they align with the entity's promise. This includes evaluating any claw backs or other potential adjustments to the variable payment. For example, an entity may conclude that the nature of its promise in a contract is to provide hotel management services (including management of the hotel employees, accounting services, training and procurement, etc.) that comprise a series of distinct services (i.e. daily hotel management). For providing this service, the entity receives a variable fee (based on a percentage of occupancy rates). It is likely that the entity would determine that it meets the first criterion to allocate the daily variable fee to the distinct service performed that day because the uncertainty related to the consideration is resolved on a daily basis as the entity satisfies its obligation to perform daily hotel management services. This is because the variable payments specifically relate to transferring the distinct service that is part of a series of distinct goods or services (i.e. the daily management service).

A further example of this has been illustrated in a TRG paper which includes a hotel management contract in which monthly consideration is based on a percentage of monthly rental revenue, reimbursement of labor costs and an annual incentive payment. The allocation objective could be met for each payment stream as follows. The base monthly fees could meet the allocation objective if the consistent measure throughout the contract period (e.g. 1% of monthly rental revenue) reflects the value to the customer. The cost reimbursements could meet the allocation objective if they are commensurate with an entity's efforts to fulfil the promise each day. The annual incentive fee could also meet the allocation objective if it reflects the value delivered to the customer for the annual period and is reasonable compared with incentive fees that could be earned in other periods.

As such, prior to assessing the measurement principals under Step 3 an analysis of Step 4 as it relates to variable consideration has been completed below.

Assessment of Step 4 – Exception – Allocation of Variable Consideration						
Forms of Consideration		**Do the terms of the variable payment relate specifically to an entity's efforts in satisfying the performance obligation or transferring the distinct service? [IFRS 15.85 (a)]**			**Is allocating the variable amount of consideration to a distinct good or service consistent with the allocation objective? [IFRS 15.85 (b)]**	**Conclusion**
		Is the changing price intended to reflect changes in market terms?	*Is the changing price linked to changes in the entity's cost of fulfilling the obligation?*	*Is the changing price linked to changes in the value provided to the customer?*		
Cost recovery of operating and maintenance costs		No	Yes - Note 3	No	Yes	Allocation exemption met.
Rent - variable components	*Cost recovery of operating expenses to administer LIL LP*	No	N/A – Note 4	No	Yes	Immaterial – Note 4.
	ROR	No	No – Note 4	No	No	Allocation exemption not met.
	Commercial depreciation of sustaining capital	No	No – Note 4	No	No	Allocation exemption not met.
	Taxes related to Class B Income Tax	No	Yes – Note 4	No	No	Allocation exemption not.

Note 3 – The nature of LIL Opco's promise in the TFA is to stand ready to provide availability and use of the LIL (as noted in Step 2 discussions). This service comprises of a series of distinct services (standing ready hourly/daily to provide service). For providing this service, the consideration LIL Opco receives includes a variable cost recovery fee based on actual operating and maintenance costs incurred. LIL Opco meets the criterion of IFRS 15.85 as the operating and maintenance costs are the actual costs incurred for the LIL to stand ready and relate directly to the level of effort to provide transmission service at any point in time. As such these costs meet the allocation exception - they are consumed with the effort taken to fulfil the interconnection obligation.

Also, the variable consideration related to operating and maintaining the LIL is forecasted to be a consistent level of effort and when forecasted in nominal dollars is not expected to change period over period. However, this variable consideration is highly susceptible to inflation over a forecasted 50-year period. Nevertheless, changes driven by inflation are commensurate/based on a market index, and are therefore representative of the level of effort to satisfy particular services in a period and allocating these increases in the period in which they are incurred (as opposed to estimating them at inception and allocating) remains consistent with the allocation objective. The O&M fees relating to operating and maintaining the LIL will be recognized as revenue as earned (i.e., as the underlying O&M costs are incurred).

Note 4 – Rent relates to cost recovery of LIL Opco's payment obligations under the LIL Lease and includes variable components related to cost recovery of operating expenses to administer LIL LP, a

ROR, commercial depreciation of sustaining capital and tax adjustments and payments. Position Paper, LCP20-001-IFRS 15 Treatment of the LIL Lease has assessed Rent revenue under IFRS 15, in its detailed form, from the perspective of LIL LP. As LIL Opco pays rent and passes the cost along to NLH it will follow the conclusions of that paper in recognizing rent revenue. In Summary,

Based on the analysis completed above, 3 out of the 7 forms of variable consideration do not meet the variable consideration allocation exemption and therefore will need to be estimated and included in the transaction price in accordance with the requirements of Step 3. Therefore the transaction price will need to be determined as follows:

Transaction Price		**Fixed or Variable**
Rent	Cost recovery of operating expenses to administer LIL LP	Variable
	ROR	Variable
	Commercial depreciation of sustaining capital	Variable
	Taxes related to Class B Income Tax	Variable

In order to include the variable amounts in the transaction price – estimation and constraints on variable consideration will be required and will be applied. See LCP20-001 IFRS 15 Treatment of the LIL Lease for full analysis on the estimation and constraints as related to Rent which is summarized below:

Assessment of Step 3 – Estimation and Constraint of Variable Consideration (not subject to allocation exception)			
Form of Consideration	**Method of Estimation?**	**Does the Constraint Apply?**	**Conclusion**
A rate of return ('ROR')	Most likely method	Yes	At inception, an estimate of ROE on Undepreciated Capital Asset will be developed and is not likely to change unless the rate changes, which will be applied prospectively, so no constraint will be applied against this piece of the calculation. However, an estimate of ROE will also be developed on Undepreciated Sustaining Capital based on a Class 5 AACE estimate of Sustaining Capital costs. Due to the range of accuracy related to a Class 5 estimates (+/- 50%) the resulting forecast will be constrained by the nature of the result. As capital programs and forecasts change, the estimate and constraint will be revisited and updated.
Commercial depreciation of sustaining capital	Most likely method	Yes	At contract inception, an estimate of Commercial Depreciation of Sustaining Capital can be developed and will be based on a Class 5 AACE estimate of Sustaining Capital costs. Due to the range of accuracy related to a Class 5 estimates (+/- 50%) the resulting forecast will be constrained by the nature of the result. As capital programs and forecasts change, the estimate and constraint will be revisited and updated.
Taxes Class B Income Tax	Most likely method	Yes	. Funding of Taxes related to Class B units are forecasted to be 31% of taxable income in accordance with the Income Tax Act. As tax programs and forecasts change, the estimate and constraint will be revisited and updated.

The transaction price can be summarized as follows:

Payment Type	**Fixed or**	**Variable –**	**Variable –**

<table>
<tr><th colspan="2"></th><th>Variable</th><th>Subject to Estimation and Constraint</th><th>Subject to Allocation Exemptions</th></tr>
<tr><td colspan="2">Cost recovery of operating expenses to administer LIL LP</td><td>Variable</td><td>No</td><td>No</td></tr>
<tr><td colspan="2">$30,000 per year</td><td>Fixed</td><td>N/A</td><td>N/A</td></tr>
<tr><td rowspan="5">Rent</td><td>Cost recovery of operating expenses to administer LIL LP , including any applicate taxes</td><td>Variable</td><td>Immaterial</td><td>Immaterial</td></tr>
<tr><td>ROR</td><td>Variable</td><td>Yes</td><td>No</td></tr>
<tr><td>Commercial depreciation of the LIL</td><td>Fixed</td><td>N/A</td><td>N/A</td></tr>
<tr><td>Commercial depreciation of Sustaining Capital</td><td>Variable</td><td>Yes</td><td>No</td></tr>
<tr><td>Taxes related to Sustaining Capital and Class B Income Tax</td><td>Variable</td><td>Yes</td><td>No</td></tr>
</table>

After contract inception, the transaction price could change for various reasons (e.g. changes in ROR). Any change in the transaction price will be will be updated at the end of each reporting period (including updating the assessment of whether an estimate of variable consideration should be constrained) to represent the circumstances present at the end of the reporting period and any changes in circumstances during the reporting period. Changes in the estimated transaction price will be addressed in accordance with IFRS 15.59.

In addition to the above considerations, an assessment is required as to whether the arrangement contains a significant financing component. IFRS 15.60 notes that *in determining the transaction price, a promised amount of consideration is adjusted for the effects of the time value of money if the timing of payments agreed to by the parties to the contract provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer. In such circumstances, the contract contains a significant financing component which may exist irrespective of whether the promise of financing is stated explicitly in the contract or implied by the payment terms agreed to by the parties to the contract.*

As an exception to the above requirement, a practical expedient exists whereby, if the entity expects at contract inception that the period between the entity transferring a good or service and the customer paying for it will be one year or less, IFRS 15 does not require adjustment of the consideration for the effects of a significant financing component.

The measurement of revenue recognized will not match the amount invoiced to the customer. Due to this, LIL Opco will recognize either a contract asset (accrued income) or a contract liability (deferred income) for the difference between cumulative revenue recognized and amount invoiced (see Appendix 3).

To assess whether the practical expedient can be applied, a calculation was performed in Appendix 3 which outlines the pattern of revenue recognition versus the commercial payment in each year of the contract. In any given year, the delta between the revenue recognition and the commercial payment is not greater than the revenue to be recognized or payments to be received in the following year, therefore proving that the Receivable or Payable balance between LIL Opco and NLH turns over annually. Therefore, the practical expedient above applies and there is no significant financing component.

Step 4: Allocate the transaction price to the performance obligations in the contract

The objective when allocating the transaction price is for an entity to allocate the transaction price to each performance obligation (or distinct good or service) in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer (IFRS 15.73).

Given the availability and use of the LIL is a series of distinct good and services and is considered a single performance obligation, there is no allocation of the transaction price amongst the distinct services within the single performance obligation, but rather this becomes a Step 5, recognition issue (with the exception of the variable components that meet the variable consideration allocation exception).

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

IFRS 15.31 states that *"an entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (ie an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset."*

Control of a good or service is transferred over time if one of the following three criteria is met (IFRS 15.35):

- *(a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs (see paragraphs B3–B4);*
- *(b) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced (see paragraph B5); or*
- *(c) the entity's performance does not create an asset with an alternative use to the entity (see paragraph 36) and the entity has an enforceable right to payment for performance completed to date (see paragraph 37).*

As previously noted, management has determined LIL Opco's promise to NLH is the availability and use of the LIL such that NLH can use the LIL to transmit power as and when NLH wishes. The extent to which NLH uses the LIL does not affect the amount of remaining goods and services to which NLH is entitled and NLH simultaneously received and consumes the benefit of LIL Opco's performance obligation. Consequently, LTC's performance obligation is satisfied over time in accordance with IFRS 15.35(a) above.

The next consideration is the method to use for measuring of progress. According to IFRS 15.41, there are a number of possible methods for measuring progress towards satisfaction of a performance obligation, including output methods and input methods for measuring:

1. *Output methods (IFRS 15.B15-17)*
   Output methods recognise revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services promised under the contract. Output methods include methods such as surveys of performance completed to date, appraisals of results achieved, milestones reached, time elapsed and units produced or units delivered. When an entity evaluates whether to apply an output method to measure its progress, the entity shall consider whether the output selected would faithfully depict the entity's performance towards complete satisfaction of the performance obligation. An output method would not provide a faithful depiction of the entity's performance if the output

selected would fail to measure some of the goods or services for which control has transferred to the customer. For example, output methods based on units produced or units delivered would not faithfully depict an entity's performance in satisfying a performance obligation if, at the end of the reporting period, the entity's performance has produced work in progress or finished goods controlled by the customer that are not included in the measurement of the output.

2. *Input methods (IFRS 15.B18-B19)*
   Input methods recognise revenue on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation (for example, resources consumed, labour hours expended, costs incurred, time elapsed or machine hours used) relative to the total expected inputs to the satisfaction of that performance obligation. If the entity's efforts or inputs are expended evenly throughout the performance period, it may be appropriate for the entity to recognise revenue on a straight-line basis.

As noted above, management has determined that LIL Opco's promise to NLH is to provide a service of making the LIL available for NLH to transmit power as and when NLH wishes. This is because the extent to which NLH uses the LIL does not affect the amount of the remaining goods and services to which NLH is entitled. Therefore, NLH simultaneously receives and consumes the benefits of LIL Opco's performance as it performs by making the LIL available to transmit power. Consequently, LIL Opco's performance obligation is satisfied over time in accordance with IFRS 15.35(a) above.

Management has also determined that NLH benefits from LIL Opco's service of making the LIL available for use evenly throughout the year. (That is, NLH benefits from having the LIL being available, regardless of whether NLH uses it or not.) Consequently, management has concluded that the best measure of progress towards complete satisfaction of the performance obligation over time is a time-based measure, resulting in straight-line recognition in relation to the time elapsed compared to the term. As previously noted, the variable consideration allocation exception applies to the variable operating and maintenance type components of the consideration.

The term of the TFA commences upon Commissioning of the LIL. Once the defined Commissioning requirements are met, Transmission Capability and Operational Control of the LIL will transfer to LIL Opco (under the LIL Lease), LIL Services, as provided by LIL Opco, will commence and revenue recognition will commence.

Note: Management also considered whether the operating and maintenance fees could be recognized using the "right to invoice" practical expedient whereby if the vendor's right to consideration from a customer corresponds directly with the value to the customer of the vendor's performance completed to date, revenue could be recognized by reference to the invoiced amount per IFRS 15.B16. However, the operating and maintenance fees are only one component of the entire invoice and they do not relate to a separate performance obligation. The other charges on the invoice will not align with performance. Therefore, as the amount of consideration on each invoice will not align with performance completed to date for any of the identified performance obligations, that expedient does not apply.

Conclusion

Based on the above analysis, the TFA between LIL Opco and NLH has commercial substance, represents a single stand-ready type performance obligation and should be recorded in accordance of IFRS 15. However, LIL Opco will record revenue in two parts.

1) Recovery of operating and maintenance costs and the $30,000 fixed fee are forecasted to match the level of effort and delivery of the performance obligation over the term of the agreement and will be recognized as earned.
2) Rent will follow revenue recognition under the IFRS 15 Treatment of the LIL Lease being,
    a. Recovery of operating costs to administer the LIL, including any relate Taxes, are forecasted to be a consistent level of effort and match the delivery of the performance obligation over the term of the agreement and will recognized as earned.
    b. All other components will be recognized straight line over the term of the agreement based on time elapsed as follows,
        i. ROR – forecasted for the term of the contract at a constrained rate based on previous 10 year trend
        ii. Commercial depreciation of the LIL – fixed consideration will be know upon commencement of the performance obligation
        iii. Commercial depreciation of sustaining capital, including any related Taxes, will be forecasted for the term of the contract
        iv. Taxes related to Class B units will be forecasted for the term of the contract.

Appendix 1: Other applicable agreements

Labrador-Island Link Limited Partnership Agreement

Parties: Labrador-Island Link General Partner Corporation, Labrador-Island Link Holding Corporate (LIL Holdco) and Limited Partners (Emera Inc. & LIL Holdco)

Term: The term of the LIL-LPA ends on December 31, 2081 (11.1).

Summary: This is a partnership agreement which establishes the structure for the partnership and how the partnership managed including the mechanics for distributions to the partners after first commercial power.

LIL Remedies Agreement

Parties: LIL LP, LIL Opco and NLH

Term: The agreement is effective from November 29, 2013 and terminates on the later of (a) the later of (i) the date which is two years after the date of termination of the LIL Lease, and (ii) the date which is two years after the date of termination of the TFA; and (b) the date specified in a written agreement of the Parties to terminate.

Summary: Defaults and remedies under the LIL Assets Agreement, the LIL Lease and the TFA contain typical default provisions. Damages will generally be the losses suffered by a party arising from a breach of the applicable agreement. Due to the legal structure of the LIL related agreements, the LIL Remedies Agreement provides for specific remedies for certain defaults as opposed to the general remedies in the individual agreements

LIL Asset Agreement

Parties: LIL LP and LIL Opco

Term: The agreement is effective from November 29, 2013 and terminates on the later of (a) the earlier of the Commissioning Date; and (b) subject to approval of the Financing Parties, written agreement of the Parties to terminate.

Summary: Provides for the interconnection of the LIL with the NL transmission system, the provision of budget information prior to commissioning of the LIL, and the payment of the optional prepaid rent

LIL Lease

Parties: LIL LP (supplier), LIL Opco (customer) and NLH

Customer: LIL LP (Note, NLH is party to the agreement due to the LIL Remedies Agreement, see Appendix 1)

Term: Commencing at the time commissioning occurs on the Commissioning Date and ending the earlier of i) the later of the date which is one month prior to the end of the LIL Service Life and five years following the date on which the financing is paid in full; ii) January 1, 2075; iii) such date as may be provided for in the LIL Remedies Agreement; and iv) written agreement of the parties (subject to the approval of the lenders) (11.2). (Currently the term is assumed to be 50 years, ending December 31, 2070 however, this estimate is under review)

Summary: The agreement provides for full cost recovery of the construction costs (including sustaining costs) of the Labrador-Island Link ('LIL') to LIL LP plus a required rate of return paid for by LIL Opco in the form of Rent payments (3.1). In return, LIL LP will assign the LIL assets and rights to LIL Opco for the term (2.1) and LIL Opco will assume responsibility for operating and maintaining the LIL in a 'good and reasonable state of repair consistent with Good Utility Practice' (4.2).

Multi Party Pooling Agreement

Parties: LIL LP, LIL Opco, NSP Maritime Link Corporation, Labrador Transmission Corporation, NLH and NLH in its capacity as the Newfoundland and Labrador System Operator ('NLSO')

Customer: Users of the Newfoundland and Labrador Transmission System

Term: Execution of each parties to the agreement until December 31, 2067 unless terminated with consent of all parties (2.2).

Summary: The agreement provides for the assignment of operational control from the asset owners to the NLSO to facilitate use of the integrated transmission system (2.1).

LIL Interim TFA

Parties: LIL LP (supplier) and NLH (customer)

Customer: Users of the Newfoundland and Labrador Transmission System

Term: Commencing on the Effective Date and ending the earlier of 1) Commissioning Date and 2) date agreed upon by the parties to the agreement (Article 2).

Summary: This agreement provides for the interim use of the LIL by NLH and respective operating and maintenance funding related to that use (2.1). See LCP 18 – Financing Costs and Interim TFA for assessment and conclusion on revenue recognition and modification to or combination with the TFA.

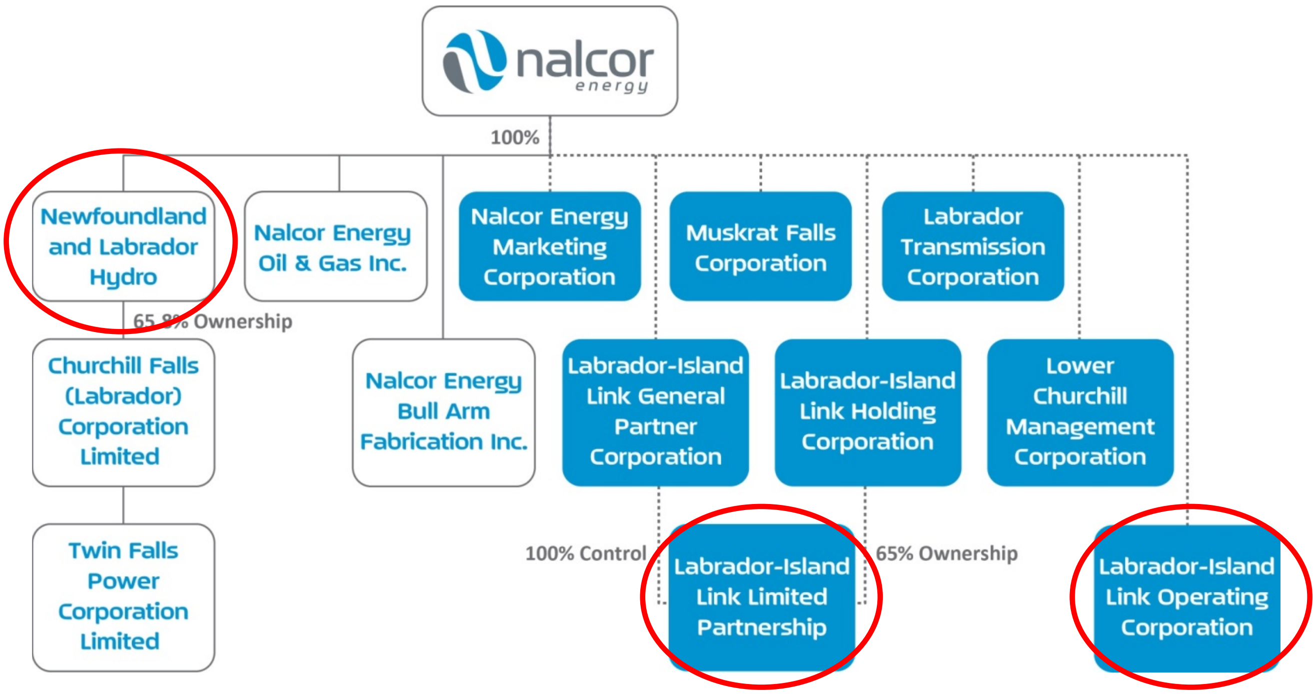
MF PPA

Parties: MFC (supplier) and NLH (customer)

Term: The Supply Period, defined as the period commencing at the time commissioning and ending January 1, 2068, (Section 13.2). Section 13.3(a) permits extension to ensure that the Supply Period is 50 years at a minimum. Given that the MF PPA term and the obligation are a minimum of 50 years, the term has been forecasted to be 50 years.

Summary: The MF PPA provides for MFC to design, develop, finance, construct, own, commission, operate and maintain the Muskrat Falls hydroelectric generating facility ("MF Plant") and for NLC to purchase energy, capacity, ancillary services and greenhouse gas credits ("GHG Credits") on a full cost recovery basis.

Appendix 2: Nalcor Corporate Structure



Parties to the LIL agreements

Appendix 3: Invoice vs Revenue Recognition Forecast ($millions)[1]

	IFRS 15 Revenue Recognition					
	Revenue, Excluding Allocation Exemption	Allocation Exemption (including escalation)	$30k/year	Total Revenue	Cash (Invoice)	Contract Asset (Liability)
2021						
Oct - Dec	79.775	8.151	0.008	87.933	103.345	(15.412)
2022	319.102	30.695	0.030	349.827	411.701	(77.286)
2023	319.102	29.962	0.030	349.094	408.719	(136.912)
2024	319.102	29.991	0.030	349.123	406.116	(193.906)
2025	319.102	29.619	0.030	348.751	402.039	(247.194)
2026	319.102	30.371	0.030	349.502	399.360	(297.051)
2027	319.102	31.667	0.030	350.799	397.128	(343.381)
2028	319.102	31.932	0.030	351.063	394.296	(386.613)
2029	319.102	32.742	0.030	351.874	392.387	(427.126)
2030	319.102	34.140	0.030	353.272	392.244	(466.098)
2031	319.102	34.425	0.030	353.557	389.823	(502.364)
2032	319.102	35.299	0.030	354.430	387.656	(535.590)
2033	319.102	36.805	0.030	355.937	375.633	(555.285)
2034	319.102	37.113	0.030	356.245	364.491	(563.532)
2035	319.102	38.055	0.030	357.187	360.896	(567.242)
2036	319.102	39.679	0.030	358.811	358.346	(566.776)
2037	319.102	40.011	0.030	359.143	358.821	(566.455)
2038	319.102	41.026	0.030	360.158	372.291	(578.588)
2039	319.102	42.778	0.030	361.909	374.950	(591.628)
2040	319.102	43.135	0.030	362.267	377.266	(606.627)
2041	319.102	44.230	0.030	363.361	376.387	(619.653)
2042	319.102	46.118	0.030	365.250	374.643	(629.046)
2043	319.102	46.503	0.030	365.635	371.234	(634.645)
2044	319.102	47.683	0.030	366.815	369.209	(637.039)
2045	319.102	49.719	0.030	368.850	366.515	(634.703)
2046	319.102	50.134	0.030	369.266	354.485	(619.922)
2047	319.102	51.407	0.030	370.538	355.494	(604.878)
2048	319.102	53.601	0.030	372.733	357.552	(589.697)
2049	319.102	54.049	0.030	373.181	358.429	(574.946)
2050	319.102	55.420	0.030	374.552	360.393	(560.787)
2051	319.102	57.786	0.030	376.918	363.214	(547.082)
2052	319.102	58.269	0.030	377.401	364.045	(533.727)
2053	319.102	59.748	0.030	378.880	368.184	(523.031)
2054	319.102	62.298	0.030	381.430	379.518	(521.119)
2055	319.102	62.819	0.030	381.951	374.480	(513.648)
2056	319.102	64.413	0.030	383.545	370.361	(500.465)
2057	319.102	67.163	0.030	386.294	369.854	(484.024)
2058	319.102	67.724	0.030	386.856	371.233	(468.402)
2059	319.102	69.443	0.030	388.574	380.604	(460.432)
2060	319.102	72.407	0.030	391.539	394.816	(463.709)
2061	319.102	73.012	0.030	392.144	392.382	(463.948)
2062	319.102	74.865	0.030	393.997	391.144	(461.096)
2063	319.102	78.061	0.030	397.192	386.513	(450.417)
2064	319.102	78.713	0.030	397.845	384.057	(436.629)
2065	319.102	80.710	0.030	399.842	377.792	(414.578)
2066	319.102	84.156	0.030	403.288	367.356	(378.647)
2067	319.102	84.859	0.030	403.991	353.808	(328.464)
2068	319.102	87.013	0.030	406.144	344.149	(266.469)
2069	319.102	90.727	0.030	409.859	345.419	(202.029)
2070	319.102	91.485	0.030	410.617	335.553	(126.966)
2071	239.326	46.903	0.023	286.252	159.287	0.000
	15,955.087	2,689.031	1.500	18,645.618	18,645.618	

1. *As per IE model FS M9 2020*