

LABRADOR - ISLAND LINK HOLDING CORPORATION
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
September 30, 2021
(Unaudited)

LABRADOR - ISLAND LINK HOLDING CORPORATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Unaudited)

<i>As at (thousands of Canadian dollars)</i>	Notes	September 30 2021	December 31 2020
ASSETS			
Current assets			
Cash		2,339	4
Restricted cash		367,369	353,849
Trade and other receivables		1,277	1,182
Inventories		697	320
Advances		465	488
Prepayments		184	2,127
Total current assets		372,331	357,970
Non-current assets			
Property, plant and equipment	3	4,772,989	4,587,815
Intangible assets	4	35,583	35,453
Right-of-use assets		2,416	2,511
Total assets		5,183,319	4,983,749
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		80,767	53,704
Current portion of long-term debt	5	21,000	21,000
Current portion of lease liabilities		113	110
Total current liabilities		101,880	74,814
Non-current liabilities			
Long-term debt	5	3,409,623	3,420,178
Deferred revenue		71,400	71,400
Class B limited partnership units	6	667,160	627,669
Lease liabilities		2,402	2,485
Contributions		10	10
Total liabilities		4,252,475	4,196,556
Shareholder's equity			
Share capital		1	1
Shareholder contributions		923,795	779,999
Retained earnings		7,048	7,193
Total equity		930,844	787,193
Total liabilities and equity		5,183,319	4,983,749

Commitments and contingencies (Note 11)

See accompanying notes

LABRADOR - ISLAND LINK HOLDING CORPORATION
CONSOLIDATED STATEMENT OF (LOSS) PROFIT AND COMPREHENSIVE (LOSS) INCOME
(Unaudited)

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Nine months ended	
		2021	2020	2021	2020
Net finance income	7	401	628	1,291	3,274
Operating costs	8	441	389	1,436	1,195
Other expense (income)		7	(2)	-	38
Expenses		448	387	1,436	1,233
Total (loss) profit and comprehensive (loss) income for the period		(47)	241	(145)	2,041

See accompanying notes

LABRADOR - ISLAND LINK HOLDING CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Unaudited)

<i>(thousands of Canadian dollars)</i>	Note	Share Capital	Shareholder Contributions	Retained Earnings	Total
Balance at January 1, 2021		1	779,999	7,193	787,193
Total comprehensive loss for the period		-	-	(145)	(145)
Shareholder contributions	10	-	143,796	-	143,796
Balance at September 30, 2021		1	923,795	7,048	930,844
Balance at January 1, 2020		1	779,979	5,105	785,085
Total comprehensive income for the period		-	-	2,041	2,041
Shareholder contributions	10	-	15	-	15
Balance at September 30, 2020		1	779,994	7,146	787,141

See accompanying note

LABRADOR - ISLAND LINK HOLDING CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Nine months ended	
		2021	2020	2021	2020
Operating activities					
(Loss) profit for the period		(47)	241	(145)	2,041
Adjustments to reconcile (loss) profit to cash (used in) provided from operating activities:					
Finance income	7	(441)	(661)	(1,425)	(3,851)
Finance expense	7	40	33	134	577
		(448)	(387)	(1,436)	(1,233)
Increase in prepayments		(429)	-	(209)	-
Changes in non-cash working capital balances	12	19	19	(1)	25
Interest received		363	649	1,367	4,448
Interest paid		(2)	(2)	(64,703)	(64,786)
Net cash (used in) provided from operating activities		(497)	279	(64,982)	(61,546)
Investing activities					
Additions to property, plant and equipment		(20,062)	(16,408)	(50,419)	(39,922)
Additions to intangible assets	4	(131)	(83)	(174)	(278)
Change in advances		-	59	23	64
Changes in non-cash working capital balances	12	6,905	1,040	(1,748)	(7,524)
Net cash used in investing activities		(13,288)	(15,392)	(52,318)	(47,660)
Financing activities					
Repayment of long-term debt		-	-	(10,500)	-
Change in restricted cash		(129,942)	15,157	(13,520)	109,332
Increase in shareholder contributions	10	143,776	3	143,796	15
Repayment of lease liabilities		(47)	(47)	(141)	(141)
Net cash provided from financing activities		13,787	15,113	119,635	109,206
Net increase (decrease) in cash		2	-	2,335	-
Cash, beginning of the period		2,337	4	4	4
Cash, end of the period		2,339	4	2,339	4

See accompanying notes

LABRADOR - ISLAND LINK HOLDING CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

1. DESCRIPTION OF BUSINESS

Labrador-Island Link Holding Corporation (LIL Holdco or the Company) was incorporated on July 31, 2012 under the laws of the Province of Newfoundland and Labrador. LIL Holdco is a 100% owned subsidiary of Nalcor Energy (Nalcor) and is a limited partner in the Labrador-Island Link Limited Partnership (the Partnership or LIL LP). LIL Holdco's head office is located at 500 Columbus Drive, St. John's, Newfoundland and Labrador, A1B 0C9, Canada.

LIL Holdco, together with the Labrador-Island Link General Partner Corporation (LIL GP or the General Partner, represent Nalcor's interests in the Partnership. Emera Newfoundland and Labrador Island Link Inc. (Emera NL) is the remaining limited partner of the Partnership, and when combined with Nalcor's interests, represents 100% of the Partnership. The Partnership is expected to terminate on December 31, 2081, unless terminated earlier or extended in accordance with the Labrador-Island Link Limited Partnership Agreement (the Partnership Agreement or LIL LPA).

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

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance and Basis of Measurement

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 - *Interim Financial Reporting* and have been prepared using accounting policies consistent with those used in the preparation of the annual audited consolidated financial statements for the year ended December 31, 2020.

These condensed consolidated interim financial statements do not include all of the disclosures normally found in LIL Holdco's annual audited consolidated financial statements and should be read in conjunction with the annual audited consolidated financial statements.

These condensed consolidated interim financial statements have been prepared on a historical cost basis and are presented in Canadian dollars with all values rounded to the nearest thousand, except when otherwise noted. The Board of Directors of LIL Holdco has delegated the authority to approve the condensed consolidated interim financial statements to the Audit Committee of the Board of Directors of Nalcor, which approved the condensed consolidated interim financial statements on November 12, 2021.

2.2 Basis of Consolidation

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

LABRADOR - ISLAND LINK HOLDING CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

3. PROPERTY, PLANT AND EQUIPMENT

<i>(thousands of Canadian dollars)</i>	Project support assets	Construction in Progress	Other	Total
Cost				
Balance at January 1, 2020	6,070	4,338,385	2,535	4,346,990
Additions	-	245,812	1,571	247,383
Balance at December 31, 2020	6,070	4,584,197	4,106	4,594,373
Additions	-	183,985	1,546	185,531
Balance at September 30, 2021	6,070	4,768,182	5,652	4,779,904
Depreciation				
Balance at January 1, 2020	5,244	-	-	5,244
Depreciation	826	-	488	1,314
Balance at December 31, 2020	6,070	-	488	6,558
Depreciation	-	-	357	357
Balance at September 30, 2021	6,070	-	845	6,915
Carrying value				
Balance at January 1, 2020	826	4,338,385	2,535	4,341,746
Balance at December 31, 2020	-	4,584,197	3,618	4,587,815
Balance at September 30, 2021	-	4,768,182	4,807	4,772,989

Capitalized Borrowing Costs

The construction of the LIL is being financed, in part, through the issuance of long-term debt. For the period ended September 30, 2021, \$93.0 million (December 31, 2020 - \$123.8 million) of borrowing costs were capitalized. The Company also capitalized borrowing costs associated with the Class B units of \$39.5 million (December 31, 2020 - \$49.3 million) as non-cash additions to property, plant and equipment.

LABRADOR - ISLAND LINK HOLDING CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

4. INTANGIBLE ASSETS

<i>(thousands of Canadian dollars)</i>	Computer Software	Assets Under Development	Total
Cost			
Balance at January 1, 2020	2,351	35,157	37,508
Additions	92	249	341
Balance at December 31, 2020	2,443	35,406	37,849
Additions	-	174	174
Balance at September 30, 2021	2,443	35,580	38,023
Amortization			
Balance at January 1, 2020	2,287	-	2,287
Amortization	109	-	109
Balance at December 31, 2020	2,396	-	2,396
Amortization	44	-	44
Balance at September 30, 2021	2,440	-	2,440
Carrying Value			
Balance at January 1, 2020	64	35,157	35,221
Balance at December 31, 2020	47	35,406	35,453
Balance at September 30, 2021	3	35,580	35,583

5. LONG-TERM DEBT

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

<i>As at (thousands of Canadian dollars)</i>	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	September 30 2021	December 31 2020
Tranche A	725,000	3.76	2013	2033	725,183	725,194
Tranche B	600,000	3.86	2013	2045	600,086	600,089
Tranche C	1,075,000	3.85	2013	2053	1,075,182	1,075,186
Tranche 3-10	84,000	1.30-1.75	2017	2021-2025	84,006	94,509
Tranche 11-20	105,000	1.84-2.37	2017	2025-2030	105,019	105,022
Tranche 21-30	105,000	2.41-2.64	2017	2030-2035	105,042	105,045
Tranche 31-40	105,000	2.66-2.80	2017	2035-2040	105,092	105,096
Tranche 41-50	105,000	2.81-2.86	2017	2040-2045	105,098	105,102
Tranche 51-60	105,000	2.84-2.86	2017	2045-2050	105,127	105,130
Tranche 61-70	105,000	2.85	2017	2050-2055	105,186	105,190
Tranche 71-74	315,000	2.85	2017	2055-2057	315,602	315,615
Total	3,429,000				3,430,623	3,441,178
Less: maturities of debt within one year					(21,000)	(21,000)
					3,409,623	3,420,178

LABRADOR - ISLAND LINK HOLDING CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

6. LIMITED PARTNERSHIP UNITS

Class B Limited Partnership Units

<i>As at (thousands of Canadian dollars)</i>	September 30		December 31	
	Units	2021	Units	2020
Class B limited partnership units, beginning of the period	25	627,669	25	578,368
Accrued interest	-	39,491	-	49,301
Class B limited partnership units, end of the period	25	667,160	25	627,669

7. NET FINANCE INCOME

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2021	2020	2021	2020
Finance income				
Other interest	441	661	1,425	3,851
Finance expense				
Interest and fees on long-term debt	30,984	31,079	93,038	93,232
Interest on Class B limited partnership units	13,578	12,515	39,491	36,527
Interest on lease liabilities	20	21	61	64
Bank charges	3	2	8	7
	44,585	43,617	132,598	129,830
Interest capitalized during construction	(44,545)	(43,584)	(132,464)	(129,253)
	40	33	134	577
Net finance income	401	628	1,291	3,274

8. OPERATING COSTS

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2021	2020	2021	2020
Salaries and benefits	819	560	1,920	1,292
Training	126	62	241	72
Professional fees	24	31	74	81
Other operating costs	(528)	(264)	(799)	(250)
	441	389	1,436	1,195

9. FINANCIAL INSTRUMENTS

Fair Value

The estimated fair values of financial instruments as at September 30, 2021 and December 31, 2020 are based on relevant market prices and information available at the time. Fair value estimates are based on valuation techniques which are significantly affected by the assumptions used including the amount and timing of future cash flows and discount rates reflecting various degrees of risk. As such, the fair value estimates disclosed are not necessarily indicative of the amounts that LIL Holdco might receive or incur in actual market transactions.

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

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

Establishing Fair Value

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the nature of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. For assets and liabilities that are recognized at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no transfers between Level 1, 2 and 3 fair value measurements during the period ended September 30, 2021 and the year ended December 31, 2020.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		September 30, 2021		December 31, 2020	
<i>As at (thousands of Canadian dollars)</i>					
Financial liabilities					
Long-term debt including amount due within one year	2	3,430,623	4,009,521	3,441,178	4,573,123
Class B limited partnership units	3	667,160	667,160	627,669	627,669

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

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

The Class B limited partnership units are carried at amortized cost, calculated using the effective interest method, which approximates fair value. The effective interest rate of 8.5% (December 31, 2020 - 8.5%) is defined in the Newfoundland and Labrador Development Agreement as Emera NL's rate of return on equity, and is equal to the rate approved by the Newfoundland and Labrador Board of Commissioners of Public Utilities for privately-owned regulated electrical utilities. Due to the unobservable nature of the effective interest rate and resulting discounted cash flows associated with the units, the instruments have been classified as Level 3.

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

<i>(thousands of Canadian dollars)</i>	1% increase in discount rate	1% decrease in discount rate
Class B limited partnership units	(38,127)	36,282

10. RELATED PARTY TRANSACTIONS

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

LABRADOR - ISLAND LINK HOLDING CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

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

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

- (a) As at September 30, 2021, LIL Holdco has related party payables totaling \$11.4 million (December 31, 2020 - \$14.5 million) with Nalcor, LCMC, Muskrat Falls, and Labrador Transco. These payables consist of various intercompany operating and construction costs.
- (b) For the period ended September 30, 2021, LIL Holdco received shareholder contributions from Nalcor in the amount of \$143.8 million (September 30, 2020 - \$15 thousand).
- (c) For the period ended September 30, 2021, LIL Holdco was charged \$7.8 million (September 30, 2020 - \$7.3 million) by Nalcor related to intercompany salary costs and administrative services.
- (d) For the period ended September 30, 2021, LIL Holdco was charged \$2.0 million (September 30, 2020 - \$nil) by LCMC related to electricity usage charged by Hydro.

11. COMMITMENTS AND CONTINGENCIES

- (a) The Partnership is required to make mandatory distributions in accordance with the Partnership Agreement. The amount of periodic distributions will be determined by the General Partner and will commence following commissioning of the LIL.
- (b) As part of the LIL PFA, the Partnership has pledged its current and future assets as security to the Collateral Agent. Under the terms and conditions of the IT PFA, the Partnership has also provided a guarantee of the IT's payment obligations to the Collateral Agent for the benefit of the LIL Funding Trust. The Company has pledged the escrow account, where the pre-funded equity contribution has been deposited, as security to the Collateral Agent.
- (c) Under the terms and conditions of the Partnership Agreement, LIL Holdco has committed to fund its share of the capital expenditures of the LIL.
- (d) LIL LP has entered into the LIL Lease and the TFA with LIL Opco and Hydro, whereby LIL LP has committed to design and construct the LIL and LIL Opco will operate and maintain the LIL at commissioning and provide such other services as agreed to ensure safe and reliable transmission of electricity. During 2018, LIL LP also entered into the Interim Transmission Funding Agreement with Hydro, whereby LIL LP will operate and maintain the LIL during the commissioning period and provide such services as agreed to ensure safe and reliable transmission of electricity.
- (e) LIL Holdco is subject to legal claims with respect to construction and other various matters. For some legal claims, it is not possible at this time to predict with any certainty the outcome of such litigation. Should these claims result in an unfavourable outcome for the Company, they may have a significant adverse effect on the Company's financial position.

LABRADOR - ISLAND LINK HOLDING CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

- (f) Outstanding commitments for capital projects total approximately \$15.2 million as at September 30, 2021 (December 31, 2020 - \$22.3 million). Under the terms of the LIL PFA, LIL LP is required to fund a remaining amount of \$nil during 2021 (December 31, 2020 - \$103.1 million).

12. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2021	2020	2021	2020
Trade and other receivables	1,225	325	(92)	3,396
Inventories	(220)	(76)	(377)	(248)
Trade and other payables	5,919	810	(1,280)	(10,647)
Changes in non-cash working capital balances	6,924	1,059	(1,749)	(7,499)
Related to:				
Operating activities	19	19	(1)	25
Investing activities	6,905	1,040	(1,748)	(7,524)
	6,924	1,059	(1,749)	(7,499)