

**LABRADOR TRANSMISSION CORPORATION**  
**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**September 30, 2021**  
**(Unaudited)**

**LABRADOR TRANSMISSION CORPORATION**  
**STATEMENT OF FINANCIAL POSITION**  
**(Unaudited)**

<i>As at (thousands of Canadian dollars)</i>	Notes	<b>September 30 2021</b>	December 31 2020
<b>ASSETS</b>			
Current assets			
Restricted cash		<b>55,868</b>	18,726
Trade and other receivables		<b>232</b>	601
Current portion of long-term receivables	4	<b>49,438</b>	3,747
Inventories		<b>47</b>	29
Prepayments		<b>19</b>	447
<b>Total current assets</b>		<b>105,604</b>	23,550
Non-current assets			
Property, plant and equipment	3	<b>977,775</b>	976,035
Intangible assets		<b>480</b>	486
Right-of-use assets		<b>225</b>	225
Long-term receivables	4	<b>61,805</b>	-
<b>Total assets</b>		<b>1,145,889</b>	1,000,296
<b>LIABILITIES AND EQUITY</b>			
Current liabilities			
Trade and other payables		<b>11,285</b>	6,171
Current portion of long-term debt	5	<b>6,681</b>	6,640
Current portion of lease liabilities		<b>1</b>	1
<b>Total current liabilities</b>		<b>17,967</b>	12,812
Non-current liabilities			
Long-term debt	5	<b>724,446</b>	727,800
Lease liabilities		<b>230</b>	230
<b>Total liabilities</b>		<b>742,643</b>	740,842
Shareholder's equity			
Share capital		<b>1</b>	1
Shareholder contributions		<b>376,291</b>	316,816
Reserves		<b>(11,058)</b>	(11,543)
Retained earnings (deficit)		<b>38,012</b>	(45,820)
<b>Total equity</b>		<b>403,246</b>	259,454
<b>Total liabilities and equity</b>		<b>1,145,889</b>	1,000,296

Commitments and contingencies (Note 10)

*See accompanying notes*

**LABRADOR TRANSMISSION CORPORATION**  
**STATEMENT OF PROFIT (LOSS) AND COMPREHENSIVE INCOME (LOSS)**  
(Unaudited)

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Notes	<b>Three months ended</b>		<b>Nine months ended</b>	
		<b>2021</b>	2020	<b>2021</b>	2020
Revenue	9	<b>30,606</b>	-	<b>107,495</b>	-
Operating costs	6	<b>1,078</b>	1,459	<b>4,036</b>	4,038
Depreciation		<b>5</b>	11	<b>14</b>	76
Net finance expense	7	<b>6,360</b>	6,371	<b>19,127</b>	19,188
Other expense		<b>162</b>	163	<b>486</b>	489
Total expenses		<b>7,605</b>	8,004	<b>23,663</b>	23,791
Profit (loss) for the period		<b>23,001</b>	(8,004)	<b>83,832</b>	(23,791)
Other comprehensive income					
Total items that may or have been reclassified to profit or loss:					
Reclassification adjustments related to:					
Cash flow hedges recognized in profit or loss		<b>161</b>	163	<b>485</b>	489
Other comprehensive income for the period		<b>161</b>	163	<b>485</b>	489
Total comprehensive income (loss) for the period		<b>23,162</b>	(7,841)	<b>84,317</b>	(23,302)

See accompanying notes

**LABRADOR TRANSMISSION CORPORATION**  
**STATEMENT OF CHANGES IN EQUITY**  
(Unaudited)

<i>(thousands of Canadian dollars)</i>	Note	Share Capital	Shareholder Contributions	Reserves	Retained Earnings (Deficit)	Total
<b>Balance at January 1, 2021</b>		<b>1</b>	<b>316,816</b>	<b>(11,543)</b>	<b>(45,820)</b>	<b>259,454</b>
<b>Income for the period</b>		-	-	-	<b>83,832</b>	<b>83,832</b>
<b>Other comprehensive income</b>		-	-	<b>485</b>	-	<b>485</b>
<b>Total comprehensive income for the period</b>		-	-	<b>485</b>	<b>83,832</b>	<b>84,317</b>
<b>Shareholder contributions</b>	<b>9</b>	-	<b>59,475</b>	-	-	<b>59,475</b>
<b>Balance at September 30, 2021</b>		<b>1</b>	<b>376,291</b>	<b>(11,058)</b>	<b>38,012</b>	<b>403,246</b>
Balance at January 1, 2020		1	316,816	(12,195)	(18,500)	286,122
Loss for the period		-	-	-	(23,791)	(23,791)
Other comprehensive income		-	-	489	-	489
<b>Total comprehensive loss for the period</b>		-	-	<b>489</b>	<b>(23,791)</b>	<b>(23,302)</b>
<b>Balance at September 30, 2020</b>		<b>1</b>	<b>316,816</b>	<b>(11,706)</b>	<b>(42,291)</b>	<b>262,820</b>

*See accompanying note*

**LABRADOR TRANSMISSION CORPORATION**  
**STATEMENT OF CASH FLOWS**  
**(Unaudited)**

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Notes	<b>Three months ended</b>		<b>Nine months ended</b>	
		<b>2021</b>	2020	<b>2021</b>	2020
<b>Operating activities</b>					
Profit (loss) for the period		<b>23,001</b>	(8,004)	<b>83,832</b>	(23,791)
Adjustments to reconcile profit (loss) to cash used in operating activities:					
Change in long-term receivables		<b>(30,607)</b>	-	<b>(107,496)</b>	-
Depreciation		<b>5</b>	4	<b>14</b>	22
Amortization of prepayments		<b>6</b>	-	<b>6</b>	-
Reserves amortized to profit or loss		<b>161</b>	163	<b>485</b>	489
Finance income	7	<b>(34)</b>	(53)	<b>(83)</b>	57
Finance expense	7	<b>6,394</b>	6,424	<b>19,210</b>	19,131
		<b>(1,074)</b>	(1,466)	<b>(4,032)</b>	(4,092)
Increase in prepayments		<b>(24)</b>	-	<b>(24)</b>	-
Changes in non-cash working capital balances	11	<b>187</b>	(598)	<b>(715)</b>	116
Interest received		<b>25</b>	31	<b>76</b>	3,680
Interest paid		-	-	<b>(13,588)</b>	(13,938)
<b>Net cash used in operating activities</b>		<b>(886)</b>	(2,033)	<b>(18,283)</b>	(14,234)
<b>Investing activities</b>					
Additions to property, plant and equipment		<b>(986)</b>	(725)	<b>(1,302)</b>	(678)
Additions to intangible assets		-	(2)	-	(11)
Changes in non-cash working capital balances	11	<b>71</b>	36,975	<b>552</b>	(100)
<b>Net cash (used in) provided from investing activities</b>		<b>(915)</b>	36,248	<b>(750)</b>	(789)
<b>Financing activities</b>					
Change in long-term debt		-	-	<b>(3,300)</b>	(19,092)
Change in restricted cash		<b>(54,473)</b>	(34,215)	<b>(37,142)</b>	34,115
Increase in shareholder contributions	9	<b>56,274</b>	-	<b>59,475</b>	-
<b>Net cash provided from (used in) financing activities</b>		<b>1,801</b>	(34,215)	<b>19,033</b>	15,023
<b>Net increase (decrease) in cash</b>		-	-	-	-
Cash, beginning of the period		-	-	-	-
Cash, end of the period		-	-	-	-

*See accompanying notes*

**LABRADOR TRANSMISSION CORPORATION**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)**

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**1. DESCRIPTION OF BUSINESS**

Labrador Transmission Corporation (Labrador Transco or the Company) was incorporated on November 13, 2013 under the laws of Newfoundland and Labrador. Labrador Transco is a 100% owned subsidiary of Nalcor Energy (Nalcor). Labrador Transco's head office is located at 500 Columbus Drive, St. John's, Newfoundland and Labrador, A1B 0M6, Canada.

Labrador Transco was formed to design, construct, finance, operate and maintain the Labrador Transmission Assets (LTA), which includes two 315-kV High Voltage alternating current transmission lines connecting the Muskrat Falls hydroelectric generating facility (MF Plant), with the Labrador-Island Link, the Churchill Falls hydroelectric generating facility and Newfoundland and Labrador Hydro's (Hydro) Labrador transmission assets.

Hydro, Muskrat Falls Corporation (Muskrat Falls), and Labrador Transco have entered into the Generator Interconnection Agreement (GIA), which governs the development and operation of the LTA. Under the terms of the GIA, Labrador Transco will recover all costs associated with the LTA from Muskrat Falls, which in turn will recover all costs incurred under the GIA as part of a power purchase agreement (PPA) with Hydro.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Statement of Compliance and Basis of Measurement**

These condensed 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 financial statements for the year ended December 31, 2020.

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

These condensed 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 Labrador Transco has delegated the authority to approve the condensed interim financial statements to the Audit Committee of the Board of Directors of Nalcor, which approved the condensed interim financial statements on November 12, 2021.

**LABRADOR TRANSMISSION CORPORATION**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)**

**3. PROPERTY, PLANT AND EQUIPMENT**

<i>(thousands of Canadian dollars)</i>	Project Support Assets	Construction in Progress	Other	Total
<b>Cost</b>				
Balance at January 1, 2020	11,487	976,805	267	988,559
Additions	-	2,033	2	2,035
Other adjustments	-	(3,047)	-	(3,047)
Balance at December 31, 2020	11,487	975,791	269	987,547
<b>Additions</b>	<b>-</b>	<b>1,463</b>	<b>291</b>	<b>1,754</b>
<b>Balance at September 30, 2021</b>	<b>11,487</b>	<b>977,254</b>	<b>560</b>	<b>989,301</b>
<b>Depreciation</b>				
Balance at January 1, 2020	10,987	-	-	10,987
Depreciation	500	-	25	525
Balance at December 31, 2020	11,487	-	25	11,512
<b>Depreciation</b>	<b>-</b>	<b>-</b>	<b>14</b>	<b>14</b>
<b>Balance at September 30, 2021</b>	<b>11,487</b>	<b>-</b>	<b>39</b>	<b>11,526</b>
<b>Carrying value</b>				
Balance at January 1, 2020	500	976,805	267	977,572
Balance at December 31, 2020	-	975,791	244	976,035
<b>Balance at September 30, 2021</b>	<b>-</b>	<b>977,254</b>	<b>521</b>	<b>977,775</b>

Capitalized Borrowing Costs

The construction of the LTA is being financed through the issuance of long-term debt and contributed capital. For the period ended September 30, 2021, \$nil (December 31, 2020 - (\$3.0 million)) of borrowing costs were capitalized.

**4. LONG-TERM RECEIVABLES**

<i>As at (thousands of Canadian dollars)</i>	<b>September 30 2021</b>	December 31 2020
Long-term receivables, beginning of the period	<b>3,747</b>	-
Additions	<b>107,496</b>	3,747
Long-term receivables, end of the period	<b>111,243</b>	3,747
Less: current portion	<b>49,438</b>	3,747
	<b>61,805</b>	-

The long-term receivable represents the timing difference between the satisfaction of performance obligations under the GIA and the timing of commercial payments.

**LABRADOR TRANSMISSION CORPORATION**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)**

**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	107,713	3.63	2013	2029	<b>107,732</b>	107,734
Tranche B	111,856	3.83	2013	2037	<b>111,868</b>	111,868
Tranche C	211,283	3.86	2013	2048	<b>211,316</b>	211,317
Tranche 3-10	27,333	1.30-1.75	2017	2021-2025	<b>27,335</b>	30,635
Tranche 11-20	37,166	1.84-2.37	2017	2025-2030	<b>37,173</b>	37,174
Tranche 21-30	41,858	2.41-2.64	2017	2030-2035	<b>41,875</b>	41,876
Tranche 31-40	47,756	2.66-2.80	2017	2035-2040	<b>47,798</b>	47,800
Tranche 41-50	54,857	2.81-2.86	2017	2040-2045	<b>54,908</b>	54,910
Tranche 51-60	63,150	2.84-2.86	2017	2045-2050	<b>63,227</b>	63,229
Tranche 61-64	27,848	2.85	2017	2050-2052	<b>27,895</b>	27,897
<b>Total</b>	<b>730,820</b>				<b>731,127</b>	734,440
Less: maturities of debt within one year					<b>(6,681)</b>	(6,640)
					<b>724,446</b>	727,800

**6. OPERATING COSTS**

<i>For the period ended September 30 (thousands of Canadian)</i>	Three months ended		Nine months ended	
	2021	2020	2021	2020
Salaries and benefits	<b>371</b>	689	<b>2,000</b>	2,168
Maintenance and materials	<b>526</b>	370	<b>1,171</b>	767
Other operating expenses	<b>144</b>	156	<b>422</b>	499
Professional services	<b>22</b>	238	<b>332</b>	579
Training	<b>9</b>	6	<b>105</b>	25
Insurance	<b>6</b>	-	<b>6</b>	-
	<b>1,078</b>	1,459	<b>4,036</b>	4,038

**7. NET FINANCE EXPENSE**

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2021	2020	2021	2020
Finance income				
Interest on investments	-	-	-	(275)
Other interest	<b>34</b>	53	<b>83</b>	218
	<b>34</b>	53	<b>83</b>	(57)
Finance expense				
Interest and fees on long-term debt	<b>6,394</b>	6,424	<b>19,209</b>	16,083
Bank fees and other interest expense	-	-	<b>1</b>	1
	<b>6,394</b>	6,424	<b>19,210</b>	16,084
Interest capitalized during construction	-	-	-	3,047
	<b>6,394</b>	6,424	<b>19,210</b>	19,131
Net finance expense	<b>6,360</b>	6,371	<b>19,127</b>	19,188



**LABRADOR TRANSMISSION CORPORATION**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)**

**8. 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 Labrador Transco might receive or incur in actual market transactions.

As a significant number of Labrador Transco'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 Labrador Transco as a whole.

Establishing Fair Value

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

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

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

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

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. For assets and liabilities that are recognized at fair value on a recurring basis, the 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.

As at September 30, 2021 and December 31, 2020 the Company did not have any Level 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		September 30, 2021		December 31, 2020	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Long-term receivables including amount due within one year	2	111,243	111,243	3,747	3,747
Financial liabilities					
Long-term debt including amount due within one year	2	731,127	826,856	734,440	924,020

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

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

**LABRADOR TRANSMISSION CORPORATION**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)**

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**9. RELATED PARTY TRANSACTIONS**

Labrador Transco 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 Labrador Transco transacts are as follows:

Related Party	Relationship
Nalcor	100% shareholder of Labrador Transco
Hydro	Wholly-owned subsidiary of Nalcor
Muskrat Falls	Wholly-owned subsidiary of Nalcor
Lower Churchill Management Corporation (LCMC)	Wholly-owned subsidiary of Nalcor
Labrador-Island Link Limited Partnership (LIL LP)	Limited partnership between Labrador-Island Link Holding Corporation and Emera Newfoundland and Labrador Island Link Inc.
Churchill Falls (Labrador) Corporation	Joint arrangement of Hydro

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

- (a) As at September 30, 2021, Labrador Transco has related party payables totaling \$1.8 million (December 31, 2020 - \$3.2 million) with Nalcor and LCMC and related party receivables totaling \$111.4 million (December 31, 2020 - \$4.3 million) with Muskrat Falls and LIL LP. These payables/receivables consist of various intercompany operating and construction costs and revenue.
- (b) For the period ended September 30, 2021, Labrador Transco recognized revenue from Muskrat Falls totaling \$107.5 million (September 30, 2020 - \$nil) related to interconnection services. Revenue allocated to the remaining performance obligation (unsatisfied or partially unsatisfied) related to interconnection services as at September 30, 2021 total \$113.6 million within one year and \$5,833.4 million in more than one year.
- (c) For the period ended September 30, 2021, Labrador Transco was charged \$2.1 million (September 30, 2020 - \$1.8 million) by Nalcor related to intercompany salary costs and administrative services.
- (d) For the period ended September 30, 2021, Labrador Transco has received contributions from Nalcor totaling \$59.5 million (September 30, 2020 - \$nil).

**10. COMMITMENTS AND CONTINGENCIES**

- (a) Labrador Transco has entered into the GIA with Muskrat Falls and Hydro, for an expected term of 57 years, whereby Labrador Transco has committed to design, construct, operate and maintain the LTA, and provides such other services as agreed to ensure safe and reliable transmission of electricity. During 2018 Labrador Transco also entered into the Interim Transmission Funding Agreement with Hydro, whereby Labrador Transco will operate and maintain the LTA during the commissioning period and provide such services as agreed to ensure safe and reliable transmission of electricity.
- (b) As part of the MF/LTA PFA, Labrador Transco has pledged its present and future assets as security to the Collateral Agent.
- (c) Labrador Transco 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 TRANSMISSION CORPORATION****NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)**

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- (d) Outstanding commitments for capital projects total approximately \$1.2 million as at September 30, 2021 (December 31, 2020 - \$1.4 million). Under the terms of the MF/LTA PFA, Labrador Transco is required to fund a remaining \$17.7 million during 2021 (December 31, 2020 - \$40.6 million).

**11. SUPPLEMENTARY CASH FLOW INFORMATION**

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>2021</b>	2020	<b>2021</b>	2020
Trade and other receivables	<b>(190)</b>	36,260	<b>363</b>	96
Inventories	<b>(13)</b>	(16)	<b>(18)</b>	(16)
Trade and other payables	<b>461</b>	133	<b>(508)</b>	(64)
Changes in non-cash working capital balances	<b>258</b>	36,377	<b>(163)</b>	16
Related to:				
Operating activities	<b>187</b>	(598)	<b>(715)</b>	116
Investing activities	<b>71</b>	36,975	<b>552</b>	(100)
	<b>258</b>	36,377	<b>(163)</b>	16