

LABRADOR - ISLAND LINK HOLDING CORPORATION
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
June 30, 2022
(Unaudited)

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

| <i>As at (thousands of Canadian dollars)</i> | Notes | June 30 2022 | December 31 2021 |
|--|-------|------------------|---------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash | | 2,990 | 2,559 |
| Restricted cash | | 293,902 | 331,278 |
| Trade and other receivables | | 1,724 | 845 |
| Other current assets | | 2,594 | 2,640 |
| Total current assets | | 301,210 | 337,322 |
| Non-current assets | | | |
| Property, plant and equipment | 3 | 4,933,090 | 4,829,454 |
| Intangible assets | 4 | 36,333 | 36,256 |
| Right-of-use assets | | 2,309 | 2,373 |
| Total assets | | 5,272,942 | 5,205,405 |
| LIABILITIES AND EQUITY | | | |
| Current liabilities | | | |
| Trade and other payables | | 37,367 | 50,624 |
| Current portion of long-term debt | 5 | 21,000 | 21,000 |
| Current portion of lease liabilities | | 115 | 114 |
| Current portion of deferred revenue | | 91,700 | 72,600 |
| Total current liabilities | | 150,182 | 144,338 |
| Non-current liabilities | | | |
| Long-term debt | 5 | 3,388,568 | 3,399,104 |
| Deferred revenue | | - | 19,100 |
| Class B limited partnership units | 6 | 709,136 | 681,021 |
| Lease liabilities | | 2,315 | 2,371 |
| Contributions | | 10 | 10 |
| Total liabilities | | 4,250,211 | 4,245,944 |
| Shareholder's equity | | | |
| Share capital | | 1 | 1 |
| Shareholder contributions | | 1,017,299 | 952,994 |
| Retained earnings | | 5,431 | 6,466 |
| Total equity | | 1,022,731 | 959,461 |
| Total liabilities and equity | | 5,272,942 | 5,205,405 |

Commitments and contingencies (Note 11)

See accompanying notes

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

| <i>For the period ended June 30 (thousands of Canadian dollars)</i> | Notes | Three months ended | | Six months ended | |
|---|-------|--------------------|-------|------------------|------|
| | | 2022 | 2021 | 2022 | 2021 |
| Net finance income | 7 | 656 | 447 | 999 | 890 |
| Income | | 656 | 447 | 999 | 890 |
| Operating costs | 8 | 1,295 | 600 | 1,954 | 995 |
| Other expense (income) | | 78 | (8) | 80 | (7) |
| Expenses | | 1,373 | 592 | 2,034 | 988 |
| Total loss and comprehensive loss for the period | | (717) | (145) | (1,035) | (98) |

See accompanying notes

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

| <i>(thousands of Canadian dollars)</i> | Share Capital | Shareholder Contributions | Retained Earnings | Total |
|---|------------------|------------------------------|----------------------|------------------|
| Balance at January 1, 2022 | 1 | 952,994 | 6,466 | 959,461 |
| Total loss and comprehensive loss for the period | - | - | (1,035) | (1,035) |
| Shareholder contributions | - | 64,305 | - | 64,305 |
| Balance at June 30, 2022 | 1 | 1,017,299 | 5,431 | 1,022,731 |
| Balance at January 1, 2021 | 1 | 779,999 | 7,193 | 787,193 |
| Total loss and comprehensive loss for the period | - | - | (98) | (98) |
| Shareholder contributions | - | 20 | - | 20 |
| Balance at June 30, 2021 | 1 | 780,019 | 7,095 | 787,115 |

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

| <i>For the period ended June 30 (thousands of Canadian dollars)</i> | Notes | Three months ended | | Six months ended | |
|---|-------|---------------------------|----------|-------------------------|----------|
| | | 2022 | 2021 | 2022 | 2021 |
| Operating activities | | | | | |
| Loss for the period | | (717) | (145) | (1,035) | (98) |
| Adjustments to reconcile loss to cash used in operating activities: | | | | | |
| Finance income | 7 | (1,012) | (459) | (1,512) | (984) |
| Finance expense | 7 | 356 | 12 | 513 | 94 |
| | | (1,373) | (592) | (2,034) | (988) |
| Changes in non-cash working capital balances | 12 | (1,276) | 213 | (24) | 200 |
| Interest received | | 867 | 492 | 1,309 | 1,004 |
| Interest paid | | (59,344) | (64,698) | (59,346) | (64,701) |
| Net cash used in operating activities | | (61,126) | (64,585) | (60,095) | (64,485) |
| Investing activities | | | | | |
| Additions to property, plant and equipment | | (9,853) | (16,168) | (19,547) | (30,357) |
| Additions to intangible assets | 4 | (67) | - | (113) | (43) |
| Decrease in advances | | 93 | 23 | 302 | 23 |
| Changes in non-cash working capital balances | 12 | (234) | (2,836) | (11,203) | (8,653) |
| Net cash used in investing activities | | (10,061) | (18,981) | (30,561) | (39,030) |
| Financing activities | | | | | |
| Repayment of long-term debt | | (10,500) | (10,500) | (10,500) | (10,500) |
| Decrease in restricted cash | | 17,864 | 96,441 | 37,376 | 116,422 |
| Shareholder contributions | | 64,298 | 5 | 64,305 | 20 |
| Repayment of lease liabilities | | (47) | (47) | (94) | (94) |
| Net cash provided from financing activities | | 71,615 | 85,899 | 91,087 | 105,848 |
| Net increase in cash | | 428 | 2,333 | 431 | 2,333 |
| Cash, beginning of the period | | 2,562 | 4 | 2,559 | 4 |
| Cash, end of the period | | 2,990 | 2,337 | 2,990 | 2,337 |

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 (the Province). 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 0M4, 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, 2021.

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 August 15, 2022.

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, 2021 | 6,070 | 4,584,197 | 4,106 | 4,594,373 |
| Additions | - | 232,525 | 9,641 | 242,166 |
| Balance at December 31, 2021 | 6,070 | 4,816,722 | 13,747 | 4,836,539 |
| Additions | - | 102,865 | 1,330 | 104,195 |
| Other adjustments | - | (208) | - | (208) |
| Balance at June 30, 2022 | 6,070 | 4,919,379 | 15,077 | 4,940,526 |
| Depreciation | | | | |
| Balance at January 1, 2021 | 6,070 | - | 488 | 6,558 |
| Depreciation | - | - | 527 | 527 |
| Balance at December 31, 2021 | 6,070 | - | 1,015 | 7,085 |
| Depreciation | - | - | 351 | 351 |
| Balance at June 30, 2022 | 6,070 | - | 1,366 | 7,436 |
| Carrying value | | | | |
| Balance at January 1, 2021 | - | 4,584,197 | 3,618 | 4,587,815 |
| Balance at December 31, 2021 | - | 4,816,722 | 12,732 | 4,829,454 |
| Balance at June 30, 2022 | - | 4,919,379 | 13,711 | 4,933,090 |

Capitalized Borrowing Costs

The construction of the LIL is being financed, in part, through the issuance of long-term debt. For the period ended June 30, 2022, \$55.9 million (December 31, 2021 - \$123.8 million) of borrowing costs were capitalized. The Company also capitalized borrowing costs associated with the Class B units of \$28.1 million (December 31, 2021 - \$53.4 million) as non-cash additions to property, plant and equipment.

4. INTANGIBLE ASSETS

| <i>(thousands of Canadian dollars)</i> | Computer Software | Assets Under Development | Total |
|--|----------------------|-----------------------------|---------------|
| Cost | | | |
| Balance at January 1, 2021 | 2,443 | 35,406 | 37,849 |
| Additions | 612 | 238 | 850 |
| Balance at December 31, 2021 | 3,055 | 35,644 | 38,699 |
| Additions | - | 113 | 113 |
| Balance at June 30, 2022 | 3,055 | 35,757 | 38,812 |
| Amortization | | | |
| Balance at January 1, 2021 | 2,396 | - | 2,396 |
| Amortization | 47 | - | 47 |
| Balance at December 31, 2021 | 2,443 | - | 2,443 |
| Amortization | 36 | - | 36 |
| Balance at June 30, 2022 | 2,479 | - | 2,479 |
| Carrying Value | | | |
| Balance at January 1, 2021 | 47 | 35,406 | 35,453 |
| Balance at December 31, 2021 | 612 | 35,644 | 36,256 |
| Balance at June 30, 2022 | 576 | 35,757 | 36,333 |

LABRADOR - ISLAND LINK HOLDING CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED 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 | June 30 2022 | December 31 2021 |
|--|------------------|---------------|---------------|------------------|------------------|------------------|
| Tranche A | 725,000 | 3.76 | 2013 | 2033 | 725,171 | 725,179 |
| Tranche B | 600,000 | 3.86 | 2013 | 2045 | 600,084 | 600,085 |
| Tranche C | 1,075,000 | 3.85 | 2013 | 2053 | 1,075,177 | 1,075,180 |
| Tranche 5-10 | 63,000 | 1.46-1.75 | 2017 | 2022-2025 | 63,003 | 73,505 |
| Tranche 11-20 | 105,000 | 1.84-2.37 | 2017 | 2025-2030 | 105,017 | 105,018 |
| Tranche 21-30 | 105,000 | 2.41-2.64 | 2017 | 2030-2035 | 105,039 | 105,041 |
| Tranche 31-40 | 105,000 | 2.66-2.80 | 2017 | 2035-2040 | 105,087 | 105,090 |
| Tranche 41-50 | 105,000 | 2.81-2.86 | 2017 | 2040-2045 | 105,095 | 105,097 |
| Tranche 51-60 | 105,000 | 2.84-2.86 | 2017 | 2045-2050 | 105,123 | 105,125 |
| Tranche 61-70 | 105,000 | 2.85 | 2017 | 2050-2055 | 105,181 | 105,184 |
| Tranche 71-74 | 315,000 | 2.85 | 2017 | 2055-2057 | 315,591 | 315,600 |
| Total | 3,408,000 | | | | 3,409,568 | 3,420,104 |
| Less: maturities of debt within one year | | | | | (21,000) | (21,000) |
| | | | | | 3,388,568 | 3,399,104 |

6. LIMITED PARTNERSHIP UNITS

Class B Limited Partnership Units

| <i>As at (thousands of Canadian dollars)</i> | Units | June 30 2022 | Units | December 31 2021 |
|--|-----------|----------------|-------|------------------|
| Class B limited partnership units, beginning of the period | 25 | 681,021 | 25 | 627,669 |
| Accrued interest | - | 28,115 | - | 53,352 |
| Class B limited partnership units, end of the period | 25 | 709,136 | 25 | 681,021 |

7. NET FINANCE INCOME

| <i>For the period ended June 30 (thousands of Canadian dollars)</i> | Three months ended | | Six months ended | |
|---|--------------------|----------|------------------|----------|
| | 2022 | 2021 | 2022 | 2021 |
| Finance income | | | | |
| Other interest | 1,012 | 459 | 1,512 | 984 |
| | 1,012 | 459 | 1,512 | 984 |
| Finance expense | | | | |
| Interest and fees on long-term debt | 29,659 | 31,019 | 56,343 | 62,054 |
| Interest on Class B limited partnership units | 14,277 | 13,159 | 28,115 | 25,913 |
| Other interest | 22 | 22 | 44 | 46 |
| | 43,958 | 44,200 | 84,502 | 88,013 |
| Interest capitalized during construction | (43,602) | (44,188) | (83,989) | (87,919) |
| | 356 | 12 | 513 | 94 |
| Net finance income | 656 | 447 | 999 | 890 |

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

8. OPERATING COSTS

| <i>For the period ended June 30 (thousands of Canadian dollars)</i> | Three months ended | | Six months ended | |
|---|---------------------------|------|-------------------------|-------|
| | 2022 | 2021 | 2022 | 2021 |
| Professional fees | 692 | 26 | 825 | 50 |
| Salaries and benefits | 396 | 613 | 737 | 1,101 |
| Other operating costs (recoveries) | 207 | (39) | 392 | (156) |
| | 1,295 | 600 | 1,954 | 995 |

9. FINANCIAL INSTRUMENTS

Fair Value

The estimated fair values of financial instruments as at June 30, 2022 and December 31, 2021 are based on relevant market prices and information available at the time. Fair value estimates are based on valuation techniques which are significantly affected by the assumptions used including the amount and timing of future cash flows and discount rates reflecting various degrees of risk. As such, the fair value estimates 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.

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 June 30, 2022 and the year ended December 31, 2021.

| | Level | Carrying | Fair | Carrying | Fair |
|---|--------------|----------------------|------------------|--------------------------|--------------|
| | | Value | Value | Value | Value |
| <i>As at (thousands of Canadian dollars)</i> | | June 30, 2022 | | December 31, 2021 | |
| Financial liabilities | | | | | |
| Long-term debt including amount due within one year | 2 | 3,409,568 | 3,150,481 | 3,420,104 | 4,135,994 |
| Class B limited partnership units | 3 | 709,136 | 709,136 | 681,021 | 681,021 |

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

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

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

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, 2021 - 8.5%) is defined in the Newfoundland and Labrador Development Agreement as the rate of return on equity, and is equal to the rate approved by the Newfoundland and Labrador Board of Commissioners of Public Utilities for privately-owned regulated electrical utilities. Due to the unobservable nature of the effective interest rate and resulting discounted cash flows associated with the units, the instruments have been classified as Level 3.

The table below sets forth a summary of changes in fair value of the 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 | (45,687) | 43,192 |

10. RELATED PARTY TRANSACTIONS

LIL Holdco enters into various transactions with its parent and other related parties. Unless otherwise noted, these transactions occur within the normal course of operations and are measured at the exchange amount, which is the amount of consideration agreed to by the related parties. Outstanding balances due to or from related parties are non-interest bearing with settlement within 30 days, unless otherwise stated.

Related parties with which LIL Holdco transacts are as follows:

| 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 | 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 | Wholly-owned subsidiary of Nalcor |
| Muskat Falls Corporation | Wholly-owned subsidiary of Nalcor |

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

| <i>As at (thousands of Canadian dollars)</i> | June 30 | | December 31 | |
|---|---------------------------|-------|-------------------------|-------|
| | 2022 | | 2021 | |
| Trade and other receivables: | | | | |
| Other related parties | | 166 | | 133 |
| Trade and other payables: | | | | |
| Parent | | 3,891 | | 7,615 |
| Other related parties | | 852 | | 1,172 |
| | | | | |
| <i>For the period ended June 30 (thousands of Canadian dollars)</i> | Three months ended | | Six months ended | |
| | 2022 | | 2021 | |
| Additions to property, plant and equipment: | | | | |
| Parent | 2,681 | 2,371 | 4,766 | 4,340 |
| Other related parties | - | 1,978 | - | 1,978 |
| Operating costs: | | | | |
| Parent | 396 | 613 | 737 | 1,101 |

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

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.
- (f) Outstanding commitments for capital projects total approximately \$25.9 million as at June 30, 2022 (December 31, 2021 - \$12.4 million).

12. SUPPLEMENTARY CASH FLOW INFORMATION

| <i>For the period ended June 30 (thousands of Canadian dollars)</i> | Three months ended | | Six months ended | |
|---|---------------------------|---------|-------------------------|---------|
| | 2022 | 2021 | 2022 | 2021 |
| Trade and other receivables | 484 | 316 | (711) | (1,317) |
| Prepayments | (1,271) | 220 | (13) | 220 |
| Inventories | (64) | (68) | (243) | (157) |
| Trade and other payables | (659) | (3,091) | (10,260) | (7,199) |
| Changes in non-cash working capital balances | (1,510) | (2,623) | (11,227) | (8,453) |
| Related to: | | | | |
| Operating activities | (1,276) | 213 | (24) | 200 |
| Investing activities | (234) | (2,836) | (11,203) | (8,653) |
| | (1,510) | (2,623) | (11,227) | (8,453) |