

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

LABRADOR - ISLAND LINK LIMITED PARTNERSHIP
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		4	4
Restricted cash		233,906	209,337
Trade and other receivables		1,628	781
Other current assets		2,594	2,640
Total current assets		238,132	212,762
Non-current assets			
Property, plant and equipment	3	5,275,747	5,123,457
Intangible assets	4	36,333	36,256
Right-of-use assets		2,309	2,373
Total assets		5,552,521	5,374,848
LIABILITIES AND DEFICIENCY			
Current liabilities			
Trade and other payables		37,360	50,619
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		150,175	144,333
Non-current liabilities			
Long-term debt	5	3,388,568	3,399,104
Deferred revenue		-	19,100
Class A limited partnership units	6	1,314,742	1,139,796
Class B limited partnership units	6	709,136	681,021
Lease liabilities		2,315	2,371
Contributions		10	10
Total liabilities		5,564,946	5,385,735
Partners' deficit			
Deficit		(12,425)	(10,887)
Total deficiency		(12,425)	(10,887)
Total liabilities and deficiency		5,552,521	5,374,848

Commitments and contingencies (Note 11)

See accompanying notes

LABRADOR - ISLAND LINK LIMITED PARTNERSHIP
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	329	147	484	213
Income		329	147	484	213
Operating costs	8	1,289	594	1,942	983
Other expense (income)		78	(8)	80	(7)
Expenses		1,367	586	2,022	976
Total loss and comprehensive loss for the period		(1,038)	(439)	(1,538)	(763)

See accompanying notes

LABRADOR - ISLAND LINK LIMITED PARTNERSHIP
CONSOLIDATED STATEMENT OF CHANGES IN DEFICIT
(Unaudited)

<i>(thousands of Canadian dollars)</i>	Allocation to Class A Limited Partner	Allocation to Class B Limited Partner	Total Deficit
Balance at January 1, 2022	(4,476)	(6,411)	(10,887)
Total loss and comprehensive loss for the period	(830)	(708)	(1,538)
Balance at June 30, 2022	(5,306)	(7,119)	(12,425)
Balance at January 1, 2021	(3,435)	(5,529)	(8,964)
Total loss and comprehensive loss for the period	(352)	(411)	(763)
Balance at June 30, 2021	(3,787)	(5,940)	(9,727)

LABRADOR - ISLAND LINK LIMITED PARTNERSHIP
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		(1,038)	(439)	(1,538)	(763)
Adjustments to reconcile loss to cash used in operating activities:					
Finance income	7	(685)	(159)	(997)	(307)
Finance expense	7	356	12	513	94
		(1,367)	(586)	(2,022)	(976)
Changes in non-cash working capital balances	12	(1,281)	211	(26)	208
Interest received		566	146	826	266
Interest paid		(59,344)	(64,698)	(59,346)	(64,701)
Net cash used in operating activities		(61,426)	(64,927)	(60,568)	(65,203)
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)
Change in restricted cash		(18,910)	15,160	(24,569)	(362)
Increase in Class A limited partnership units	6	101,365	81,627	126,713	117,521
Repayment of Class A limited partnership units	6	(421)	(2,332)	(421)	(2,332)
Repayment of lease liabilities		(47)	(47)	(94)	(94)
Net cash provided from financing activities		71,487	83,908	91,129	104,233
Net increase (decrease) in cash		-	-	-	-
Cash, beginning of the period		4	4	4	4
Cash, end of the period		4	4	4	4

See accompanying notes

LABRADOR - ISLAND LINK LIMITED PARTNERSHIP
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

1. DESCRIPTION OF BUSINESS

Labrador-Island Link Limited Partnership (the Partnership or LIL LP) was formed on July 31, 2012 under the laws of the Province of Newfoundland and Labrador. The Partnership's head office is located at 500 Columbus Drive, St. John's, Newfoundland and Labrador, A1B 0M4, Canada.

The Partnership has two limited partners, Labrador-Island Link Holding Corporation (LIL Holdco), a wholly-owned subsidiary of Nalcor Energy (Nalcor), and Emera Newfoundland and Labrador Island Link Inc. (Emera NL). LIL Holdco holds 75 Class A partnership units and one Class C unit while Emera NL holds 25 Class B units. 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 general partner of the Partnership is Labrador-Island Link General Partner Corporation (the General Partner or LIL GP), a wholly-owned subsidiary of Nalcor. Although the General Partner holds legal title to the assets, the Partnership is the beneficial owner and assumes all risks and rewards of the assets.

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). LIL LP 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 LP'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 General Partner 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 the Partnership and the LIL Construction Project Trust (Project Trust or the IT). Intercompany transactions and balances have been eliminated upon consolidation.

LABRADOR - ISLAND LINK LIMITED PARTNERSHIP

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	4,804,533	4,106	4,814,709
Additions	-	306,192	9,641	315,833
Balance at December 31, 2021	6,070	5,110,725	13,747	5,130,542
Additions	-	151,519	1,330	152,849
Other adjustments	-	(208)	-	(208)
Balance at June 30, 2022	6,070	5,262,036	15,077	5,283,183
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	-	4,804,533	3,618	4,808,151
Balance at December 31, 2021	-	5,110,725	12,732	5,123,457
Balance at June 30, 2022	-	5,262,036	13,711	5,275,747

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, \$55.8 million (December 31, 2021 - \$123.9 million) of borrowing costs were capitalized. The Partnership also capitalized borrowing costs associated with the Class A units and the Class B units of \$76.8 million (December 31, 2021 - \$127.0 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 LIMITED PARTNERSHIP

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

6.1 Class A Limited Partnership Units

<i>As at (thousands of Canadian dollars)</i>	Units	June 30 2022	Units	December 31 2021
Class A limited partnership units, beginning of the period	75	1,139,796	75	749,390
Contributions	-	126,713	-	319,287
Repayment	-	(421)	-	(2,549)
Accrued interest	-	48,654	-	73,668
Class A limited partnership units, end of the period	75	1,314,742	75	1,139,796

6.2 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

LABRADOR - ISLAND LINK LIMITED PARTNERSHIP**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)****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	685	159	997	307
	685	159	997	307
Finance expense				
Interest and fees on long-term debt	29,659	31,019	56,343	62,054
Interest on limited partnership units	39,524	30,266	76,769	58,541
Other interest	22	22	44	46
	69,205	61,307	133,156	120,641
Interest capitalized during construction	(68,849)	(61,295)	(132,643)	(120,547)
	356	12	513	94
Net finance income	329	147	484	213

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	688	22	818	43
Salaries and benefits	396	613	737	1,101
Other operating costs (recoveries)	205	(41)	387	(161)
	1,289	594	1,942	983

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 LP might receive or incur in actual market transactions.

As a significant number of LIL LP'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 LP 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).

LABRADOR - ISLAND LINK LIMITED PARTNERSHIP
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

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 Partnership 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 Value	Fair Value	Carrying Value	Fair Value
		June 30, 2022		December 31, 2021	
<i>As at (thousands of Canadian dollars)</i>					
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 A limited partnership units	3	1,314,742	1,314,742	1,139,796	1,139,796
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.

The Class A and 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 Partnership'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 A limited partnership units	(51,366)	48,699
Class B limited partnership units	(45,687)	43,192
Total	(97,053)	91,891

10. RELATED PARTY TRANSACTIONS

LIL LP enters into various transactions with its partner 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.

LABRADOR - ISLAND LINK LIMITED PARTNERSHIP
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

Related parties with which LIL LP transacts are as follows:

Related Party	Relationship
LIL Holdco	Limited Partner holding 75 Class A limited partnership units of LIL LP
Emera NL	Limited Partner holding 25 Class B limited partnership units of LIL LP
Nalcor	100% shareholder of LIL Holdco
Hydro	Wholly-owned subsidiary of Nalcor
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:				
Other related parties	4,743	8,788		
	Three months ended	Six months ended		
<i>For the period ended June 30 (thousands of Canadian dollars)</i>	2022	2021	2022	2021
Additions to property, plant and equipment:				
Other related parties	2,681	4,349	4,776	6,318
Operating costs:				
Other related parties	396	613	737	1,101

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.
- (c) LIL LP has entered into the LIL Lease Agreement 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.
- (d) LIL LP 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 Partnership, they may have a significant adverse effect on the Partnership's financial position.

LABRADOR - ISLAND LINK LIMITED PARTNERSHIP**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)**

- (e) 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	(664)	(3,093)	(10,262)	(7,191)
Changes in non-cash working capital balances	(1,515)	(2,625)	(11,229)	(8,445)
Related to:				
Operating activities	(1,281)	211	(26)	208
Investing activities	(234)	(2,836)	(11,203)	(8,653)
	(1,515)	(2,625)	(11,229)	(8,445)