

LABRADOR TRANSMISSION CORPORATION
CONDENSED INTERIM FINANCIAL STATEMENTS
June 30, 2022
(Unaudited)

LABRADOR TRANSMISSION CORPORATION
STATEMENT OF FINANCIAL POSITION
(Unaudited)

<i>As at (thousands of Canadian dollars)</i>	Notes	June 30 2022	December 31 2021
ASSETS			
Current assets			
Restricted cash		147,018	60,792
Trade and other receivables		563	36
Short-term investments	4	6,774	-
Current portion of contract asset	5	47,229	44,309
Other current assets		188	208
Total current assets		201,772	105,345
Non-current assets			
Property, plant and equipment	3	977,967	977,905
Investments	4	43,276	-
Intangible assets		474	479
Right-of-use assets		221	221
Contract asset	5	122,586	88,795
Total assets		1,346,296	1,172,745
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		5,800	4,913
Related party loan payable	11	-	9,843
Current portion of long-term debt	6	6,774	6,728
Current portion of lease liabilities		1	1
Total current liabilities		12,575	21,485
Non-current liabilities			
Long-term debt	6	883,371	721,054
Lease liabilities		229	229
Total liabilities		896,175	742,768
Shareholder's equity			
Share capital	7	90,147	1
Shareholder contributions		274,877	383,400
Reserves		(10,576)	(10,897)
Retained earnings		95,673	57,473
Total equity		450,121	429,977
Total liabilities and equity		1,346,296	1,172,745

Commitments and contingencies (Note 12)

See accompanying notes

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

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Six months ended	
		2022	2021	2022	2021
Revenue	11	26,520	38,163	53,608	76,889
Operating costs	8	1,283	1,504	2,636	2,958
Depreciation and amortization		9	4	17	9
Net finance expense	9	6,368	6,387	11,522	12,767
Other expense		160	162	321	324
Total expenses		7,820	8,057	14,496	16,058
Profit for the period		18,700	30,106	39,112	60,831
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		160	162	321	324
Other comprehensive income for the period		160	162	321	324
Total comprehensive income for the period		18,860	30,268	39,433	61,155

See accompanying notes

LABRADOR TRANSMISSION CORPORATION
STATEMENT OF CHANGES IN EQUITY
(Unaudited)

<i>(thousands of Canadian dollars)</i>	Notes	Share Capital	Shareholder Contributions	Reserves	Retained Earnings	Total
Balance at January 1, 2022		1	383,400	(10,897)	57,473	429,977
Profit for the period		-	-	-	39,112	39,112
Other comprehensive income		-	-	321	-	321
Total comprehensive income for the period		-	-	321	39,112	39,433
Capital restructuring	7	108,523	(108,523)	-	-	-
Share redemption	7	(18,377)	-	-	-	(18,377)
Dividends	7	-	-	-	(912)	(912)
Balance at June 30, 2022		90,147	274,877	(10,576)	95,673	450,121
Balance at January 1, 2021		1	316,816	(11,543)	(45,820)	259,454
Profit for the period		-	-	-	60,831	60,831
Other comprehensive income		-	-	324	-	324
Total comprehensive income for the period		-	-	324	60,831	61,155
Shareholder contributions		-	3,201	-	-	3,201
Balance at June 30, 2021		1	320,017	(11,219)	15,011	323,810

See accompanying notes

LABRADOR TRANSMISSION CORPORATION
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					
Profit for the period		18,700	30,106	39,112	60,831
Adjustments to reconcile profit to cash (used in) provided from operating activities:					
Depreciation and amortization		169	166	338	333
Finance income	9	(1,047)	(19)	(1,138)	(49)
Finance expense	9	7,415	6,406	12,660	12,816
		25,237	36,659	50,972	73,931
Changes in non-cash working capital balances	13	112	450	760	(902)
Increase in contract asset		(20,534)	(38,163)	(36,711)	(76,889)
Interest received		674	24	746	51
Interest paid		(12,987)	(13,588)	(13,118)	(13,588)
Net cash (used in) provided from operating activities		(7,498)	(14,618)	2,649	(17,397)
Investing activities					
Change in investments	4	3,341	-	(50,050)	-
Additions to property, plant and equipment		(100)	(128)	(75)	(316)
Changes in non-cash working capital balances	13	843	20	412	481
Net cash provided from (used in) investing activities		4,084	(108)	(49,713)	165
Financing activities					
Repayment of related party loan payable		(2,392)	-	(9,792)	-
Change in restricted cash		28,436	14,825	(86,226)	17,331
Repayment of long-term debt		(3,341)	(3,300)	(3,341)	(3,300)
Proceeds from long-term debt		-	-	165,712	-
Shareholder contributions		-	3,201	-	3,201
Share redemption	7	(18,377)	-	(18,377)	-
Dividends	7	(912)	-	(912)	-
Net cash provided from financing activities		3,414	14,726	47,064	17,232
Net increase (decrease) in cash		-	-	-	-
Cash, beginning of the period		-	-	-	-
Cash, end of the period		-	-	-	-

See accompanying notes

LABRADOR TRANSMISSION CORPORATION

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

1. DESCRIPTION OF BUSINESS

Labrador Transmission Corporation (Labrador Transco or the Company) was incorporated on November 13, 2013 under the laws of the Province of Newfoundland and Labrador (the Province). 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 0M4, 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, 2021.

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 August 15, 2022.

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
Cost				
Balance at January 1, 2021	11,487	975,791	269	987,547
Additions	-	1,326	564	1,890
Balance at December 31, 2021	11,487	977,117	833	989,437
Additions	-	45	57	102
Other adjustments	-	(27)	-	(27)
Balance at June 30, 2022	11,487	977,135	890	989,512
Depreciation				
Balance at January 1, 2021	11,487	-	25	11,512
Depreciation	-	-	20	20
Balance at December 31, 2021	11,487	-	45	11,532
Depreciation	-	-	13	13
Balance at June 30, 2022	11,487	-	58	11,545
Carrying value				
Balance at January 1, 2021	-	975,791	244	976,035
Balance at December 31, 2021	-	977,117	788	977,905
Balance at June 30, 2022	-	977,135	832	977,967

4. INVESTMENTS

The following table represents the value of investments measured at amortized cost:

<i>As at (thousands of Canadian dollars)</i>	Year of Maturity	June 30 2022	December 31 2021
Amortizing Fixed Rate Deposit Note, with interest paid at a rate of 3.745% per annum	2022- 2029	50,050	-
Less: redemptions to be received within one year		(6,774)	-
		43,276	-

On March 31, 2022, the Company, jointly with Muskrat Falls, purchased a structured deposit note using the proceeds from issued long-term debt. The investments are restricted in nature and subject to the provisions contained within the MF/LTA Project Finance Agreement (MF/LTA PFA). Labrador Transco recognizes its ratable share of these investments, which is based on its cumulative portion of actual debt drawn for the construction of the LTA. As of June 30, 2022, Labrador Transco's portion was 16.57% (December 31, 2021 - 16.57%).

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

5. CONTRACT ASSET

	June 30	December 31
<i>As at (thousands of Canadian dollars)</i>	2022	2021
Contract asset, beginning of the period	133,104	3,747
Additions	56,263	134,948
Less: Receipts	(19,552)	(5,591)
Contract asset, end of the period	169,815	133,104
Less: current portion	(47,229)	(44,309)
	122,586	88,795

The contract asset represents the timing difference between the satisfaction of performance obligations to Muskrat Falls under the GIA and the timing of commercial payments.

6. 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	December 31
					2022	2021
Tranche A	107,713	3.63	2013	2029	107,730	107,731
Tranche B	111,856	3.83	2013	2037	111,867	111,867
Tranche C	211,283	3.86	2013	2048	211,315	211,315
Tranche 5-10	20,651	1.46-1.75	2017	2022-2025	20,653	23,994
Tranche 11-20	37,166	1.84-2.37	2017	2025-2030	37,172	37,173
Tranche 21-30	41,858	2.41-2.64	2017	2030-2035	41,874	41,874
Tranche 31-40	47,756	2.66-2.80	2017	2035-2040	47,796	47,797
Tranche 41-50	54,857	2.81-2.86	2017	2040-2045	54,906	54,907
Tranche 51-60	63,150	2.84-2.86	2017	2045-2050	63,225	63,227
Tranche 61-64	27,848	2.85	2017	2050-2052	27,895	27,897
Tranche A-T	82,856	3.35-3.38	2022	2037-2047	82,856	-
Tranche U	82,856	3.38	2022	2057	82,856	-
Total	889,850				890,145	727,782
Less: maturities of debt within one year					(6,774)	(6,728)
					883,371	721,054

On March 31, 2022 an additional credit facility was jointly issued to Labrador Transco and Muskrat Falls in the amount of \$1.0 billion available in 21 tranches (Tranches A through U). All tranches of the credit facility were drawn down by way of a single advance to an account administered by a Collateral Agent. The facility benefits from a direct, absolute, unconditional and irrevocable guarantee from the Government of Canada, and thereby carries its full faith and credit (AAA rating or equivalent). Labrador Transco's portion of the ratable share is based on its cumulative portion of actual debt drawn for the construction of the LTA. As of June 30, 2022, Labrador Transco's portion was 16.57% (December 31, 2021 – 16.57%).

As part of an amendment to the MF/LTA PFA in March 2022, the sinking fund payment for Tranche A and the guarantee fee under the previous debt arrangements are no longer required.

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

7. SHAREHOLDER'S EQUITY

7.1 Share Capital

<i>As at (thousands of Canadian dollars)</i>	June 30 2022	December 31 2021
Preferred shares without nominal or par value		
Authorized – unlimited		
Issued - fully paid and outstanding - 90,146,439	90,146	-
Common shares without nominal or par value		
Authorized – unlimited		
Issued - fully paid and outstanding - 1,000	1	-
Common shares without nominal or par value		
Authorized – unlimited		
Issued - fully paid and outstanding - 100	-	1
	90,147	1

On March 25, 2022, the Company amended its Articles of Incorporation to create a new capital structure. Included in the new capital structure, previously held common shares were designated Class A common shares and Class A preferred shares increased by \$108.5 million. On May 13, 2022, the Company redeemed Class A preferred shares of \$18.4 million (December 31, 2021 - \$nil).

7.2 Dividends

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Three months ended		Six months ended	
	2022	2021	2022	2021
Declared and paid during the period				
Preferred dividend for current period (3% coupon rate)	793	-	793	-
Common dividend for current period	119	-	119	-
	912	-	912	-

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
Salaries and benefits	602	884	1,147	1,629
Professional services	286	177	561	310
Maintenance and materials	149	282	409	645
Other operating costs	178	161	381	374
Insurance	68	-	138	-
	1,283	1,504	2,636	2,958

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

9. NET FINANCE EXPENSE

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Three months ended		Six months ended	
	2022	2021	2022	2021
Finance income				
Interest on investments	486	-	491	-
Other interest	561	19	647	49
	1,047	19	1,138	49
Finance expense				
Interest and fees on long-term debt	7,409	6,405	12,564	12,815
Other interest	6	1	96	1
	7,415	6,406	12,660	12,816
Net finance expense	6,368	6,387	11,522	12,767

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

As at June 30, 2022 and December 31, 2021 the Company did not have any Level 3 instruments.

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

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		June 30, 2022		December 31, 2021	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Investments, including short-term	2	50,050	46,993	-	-
Financial liabilities					
Long-term debt including amount due within one year	2	890,145	811,384	727,782	844,579

The fair values of restricted cash, trade and other receivables, trade and other payables and related party loan payable 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.

10.2 Risk Management

Credit Risk

The Company's expected future cash flows are exposed to credit risk through financing activities, based on the risk of non-performance by counterparties to its financial instruments. Credit risk on restricted cash and investments is minimal, as the Company's deposits are held by a Canadian Schedule 1 Chartered Bank with a rating of A+ and AA- (Standard and Poor's). The degree of exposure to credit risk on trade and other receivables is determined by the financial capacity and stability of the counterparties whereby the maximum risk is represented by their carrying value on the Statement of Financial Position at the reporting date.

Liquidity Risk

The following are the contractual maturities of the Company's financial liabilities, including principal and interest, as at June 30, 2022:

<i>(thousands of Canadian dollars)</i>	<1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	5,800	-	-	-	5,800
Long-term debt	36,333	72,672	72,685	1,307,541	1,489,231
	42,133	72,672	72,685	1,307,541	1,495,031

11. RELATED PARTY TRANSACTIONS

Labrador Transco enters into various transactions with its parent and other related parties. Unless otherwise stated, 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 due within 30 days, unless otherwise stated.

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

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	Wholly-owned subsidiary of Nalcor
Labrador-Island Link Limited Partnership	Limited partnership between Labrador-Island Link Holding Corporation and Emera Newfoundland and Labrador Island Link Inc.

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

		June 30 2022	December 31 2021
<i>As at (thousands of Canadian dollars)</i>			
Trade and other receivables:			
Other related parties		134	-
Contract asset (including current portion):	Note 5		
Other related parties		169,815	133,104
Trade and other payables:			
Parent		937	993
Other related parties		1,927	578
Related party loan payable:			
Other related parties	(a)	-	9,843
		Three months ended 2022	Six months ended 2022
<i>For the period ended June 30 (thousands of Canadian dollars)</i>			
Revenues:			
Other related parties		26,520	38,163
		53,608	76,889
Operating costs:			
Parent		637	842
		1,322	1,597

(a) Labrador Transco had a related party loan payable with Muskrat Falls which includes interest charged at 5.43% and is payable to Muskrat Falls as cash becomes available while still meeting its debt servicing costs.

12. 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. Revenue allocated to the remaining performance obligation (unsatisfied or partially unsatisfied) related to interconnection services as at June 30, 2022 total \$112.2 million within one year and \$5,646.9 million in more than one year.
- (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)**

- (d) Outstanding commitments for capital projects total approximately \$1.2 million as at June 30, 2022 (December 31, 2021 - \$0.7 million).

13. 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	(148)	8	(144)	553
Inventories	(17)	(3)	(94)	(5)
Prepayments	60	-	114	-
Trade and other payables	1,060	465	1,296	(969)
Changes in non-cash working capital balances	955	470	1,172	(421)
Related to:				
Operating activities	112	450	760	(902)
Investing activities	843	20	412	481
	955	470	1,172	(421)