

LABRADOR - ISLAND LINK HOLDING CORPORATION
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
March 31, 2023
(Unaudited)

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

<i>As at (thousands of Canadian dollars)</i>	Notes	March 31 2023	December 31 2022
ASSETS			
Current assets			
Cash		3,071	3,036
Restricted cash		362,926	373,922
Trade and other receivables		3,219	6,068
Other current assets		2,495	2,317
Total current assets		371,711	385,343
Non-current assets			
Property, plant and equipment	3	5,094,389	5,041,685
Intangible assets		36,468	36,426
Right-of-use assets		2,202	2,234
Total assets		5,504,770	5,465,688
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		64,854	41,674
Current portion of long-term debt	4	21,000	21,000
Current portion of lease liabilities		66	91
Deferred revenue	9	112,900	112,900
Total current liabilities		198,820	175,665
Non-current liabilities			
Long-term debt	4	3,378,015	3,378,032
Class B limited partnership units	5	753,922	738,908
Lease liabilities		2,277	2,280
Contributions		10	10
Total liabilities		4,333,044	4,294,895
Shareholder's equity			
Share capital		1	1
Shareholder contributions		1,162,695	1,162,686
Retained earnings		9,030	8,106
Total equity		1,171,726	1,170,793
Total liabilities and equity		5,504,770	5,465,688

Commitments and contingencies (Note 10)

Subsequent event (Note 12)

See accompanying notes

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

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Notes	Three months ended	
		2023	2022
Net finance income	6	1,257	343
Income		1,257	343
Operating costs	7	338	659
Other (income) expense		(5)	2
Expenses		333	661
Total profit (loss) and comprehensive income (loss) for the period		924	(318)

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, 2023	1	1,162,686	8,106	1,170,793
Total profit and comprehensive income for the period	-	-	924	924
Shareholder contributions	-	9	-	9
Balance at March 31, 2023	1	1,162,695	9,030	1,171,726
Balance at January 1, 2022	1	952,994	6,466	959,461
Total loss and comprehensive loss for the period	-	-	(318)	(318)
Shareholder contributions	-	7	-	7
Balance at March 31, 2022	1	953,001	6,148	959,150

See accompanying notes

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

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Notes	Three months ended	
		2023	2022
Operating activities			
Profit (loss) for the period		924	(318)
Adjustments to reconcile profit (loss) to cash provided from operating activities:			
Finance income	6	(4,282)	(500)
Finance expense	6	3,025	157
		(333)	(661)
Changes in non-cash working capital balances	11	(184)	1,252
Interest received		4,170	442
Interest paid		(138)	(2)
Net cash provided from operating activities		3,515	1,031
Investing activities			
Additions to property, plant and equipment		(10,912)	(9,694)
Additions to intangible assets		(58)	(46)
Decrease in advances		-	209
Changes in non-cash working capital balances	11	(3,468)	(10,969)
Net cash used in investing activities		(14,438)	(20,500)
Financing activities			
Decrease in restricted cash		10,996	19,512
Shareholder contributions		9	7
Repayment of lease liabilities		(47)	(47)
Net cash provided from financing activities		10,958	19,472
Net increase in cash		35	3
Cash, beginning of the period		3,036	2,559
Cash, end of the period		3,071	2,562

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 (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), represent Nalcor's interests in LIL LP. Emera Newfoundland and Labrador Island Link Inc. (Emera NL) is the remaining limited partner, and when combined with Nalcor's interests, represents 100% of LIL LP. LIL LP 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).

LIL LP 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 LIL LP.

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, 2022.

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 May 15, 2023.

2.2 Basis of Consolidation

These condensed consolidated interim financial statements include the financial statements of LIL Holdco, LIL LP and the LIL Construction Project Trust (the IT). Intercompany transactions and balances have been eliminated upon consolidation. Upon commissioning of the LIL, the IT will take steps to terminate and assign all indebtedness, rights, titles and interest under the IT Project Finance Agreement (IT PFA) to the Labrador – Island Link Funding Trust (LIL Funding Trust).

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, 2022	6,070	4,816,722	13,747	4,836,539
Additions	-	213,133	-	213,133
Other adjustments	-	(208)	-	(208)
Transfers	-	(2,600)	2,600	-
Balance at December 31, 2022	6,070	5,027,047	16,347	5,049,464
Additions	-	58,198	-	58,198
Other adjustments	-	(86)	(5,370)	(5,456)
Transfers	-	(219)	219	-
Balance at March 31, 2023	6,070	5,084,940	11,196	5,102,206
Depreciation				
Balance at January 1, 2022	6,070	-	1,015	7,085
Depreciation	-	-	694	694
Balance at December 31, 2022	6,070	-	1,709	7,779
Depreciation	-	-	38	38
Balance at March 31, 2023	6,070	-	1,747	7,817
Carrying value				
Balance at January 1, 2022	-	4,816,722	12,732	4,829,454
Balance at December 31, 2022	-	5,027,047	14,638	5,041,685
Balance at March 31, 2023	-	5,084,940	9,449	5,094,389

Capitalized Borrowing Costs

The construction of the LIL is being financed, in part, through the issuance of long-term debt. For the period ended March 31, 2023, \$26.7 million (December 31, 2022 - \$112.5 million) of borrowing costs were capitalized. The Company also capitalized borrowing costs associated with the Class B units of \$15.0 million (December 31, 2022 - \$57.9 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. 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	March 31 2023	December 31 2022
Tranche A	725,000	3.76	2013	2033	725,159	725,163
Tranche B	600,000	3.86	2013	2045	600,081	600,082
Tranche C	1,075,000	3.85	2013	2053	1,075,173	1,075,175
Tranche 6-10	52,500	1.52-1.75	2017	2023-2025	52,503	52,503
Tranche 11-20	105,000	1.84-2.37	2017	2025-2030	105,014	105,015
Tranche 21-30	105,000	2.41-2.64	2017	2030-2035	105,036	105,037
Tranche 31-40	105,000	2.66-2.80	2017	2035-2040	105,083	105,085
Tranche 41-50	105,000	2.81-2.86	2017	2040-2045	105,091	105,092
Tranche 51-60	105,000	2.84-2.86	2017	2045-2050	105,120	105,121
Tranche 61-70	105,000	2.85	2017	2050-2055	105,177	105,178
Tranche 71-74	315,000	2.85	2017	2055-2057	315,578	315,581
Total	3,397,500				3,399,015	3,399,032
Less: maturities of debt within one year					(21,000)	(21,000)
					3,378,015	3,378,032

5. LIMITED PARTNERSHIP UNITS

Class B Limited Partnership Units

<i>As at (thousands of Canadian dollars)</i>	Units	March 31 2023	Units	December 31 2022
Class B limited partnership units, beginning of the period	25	738,908	25	681,021
Accrued interest	-	15,014	-	57,887
Class B limited partnership units, end of the period	25	753,922	25	738,908

6. NET FINANCE INCOME

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Three months ended 2023	2022
Finance income		
Interest on restricted cash	4,264	482
Other interest	18	18
	4,282	500
Finance expense		
Interest and fees on long-term debt	29,596	26,684
Interest on Class B limited partnership units	15,014	13,838
Other interest	158	22
	44,768	40,544
Interest capitalized during construction	(41,743)	(40,387)
	3,025	157
Net finance income	1,257	343

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

7. OPERATING COSTS

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Three months ended	
	2023	2022
Other operating costs	187	318
Salaries and benefits	151	341
	338	659

8. FINANCIAL INSTRUMENTS

Fair Value

The estimated fair values of financial instruments as at March 31, 2023 and December 31, 2022 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 March 31, 2023 and the year ended December 31, 2022.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>As at (thousands of Canadian dollars)</i>		March 31, 2023		December 31, 2022	
Financial liabilities					
Long-term debt including amount due within one year	2	3,399,015	3,191,115	3,399,032	3,084,492
Class B limited partnership units	3	753,922	753,922	738,908	738,908

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
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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, 2022 - 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	(54,118)	50,824

9. 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
Labrador-Island Link Holding (2021) Corporation (LIL Holdco (2021))	Wholly-owned subsidiary of Nalcor, limited partner of LIL (2021) Limited Partnership (LIL (2021) LP)
LIL (2021) LP	Limited partnership with LIL Holdco (2021)
LIL Opco	Wholly-owned subsidiary of Nalcor
Lower Churchill Management Corporation	Wholly-owned subsidiary of Nalcor
Muskkrat Falls Corporation	Wholly-owned subsidiary of Nalcor

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

	March 31	December 31
<i>As at (thousands of Canadian dollars)</i>	2023	2022
Trade and other receivables:		
Other related parties	270	-
Trade and other payables:		
Parent	2,886	3,156
Other related parties	130	422
Deferred revenue:		
Other related parties	112,900	112,900
	Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	2023	2022
Additions to property, plant and equipment:		
Parent	2,600	2,085
Operating costs:		
Parent	151	341

10. COMMITMENTS AND CONTINGENCIES

- (a) LIL LP is required to make mandatory distributions in accordance with the Partnership Agreement. The amount of periodic distributions will be determined by LIL GP and will commence following commissioning of the LIL.
- (b) As part of the LIL Project Finance Agreement, LIL LP has pledged its current and future assets as security to the Collateral Agent. Under the terms and conditions of the IT PFA, LIL LP 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 beginning at commissioning and provide such other 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 \$12.8 million as at March 31, 2023 (December 31, 2022 - \$24.9 million).

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

11. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Three months ended	
	2023	2022
Trade and other receivables	2,943	(1,195)
Prepayments	52	1,258
Inventories	(230)	(179)
Trade and other payables	(6,417)	(9,601)
Changes in non-cash working capital balances	(3,652)	(9,717)
Related to:		
Operating activities	(184)	1,252
Investing activities	(3,468)	(10,969)
	(3,652)	(9,717)

12. SUBSEQUENT EVENT

On April 14, 2023, commissioning of the LIL was approved by all required stakeholders. All components of the Lower Churchill Project, the Muskrat Falls hydroelectric generating facility, Labrador Transmission Assets and LIL are now commissioned.