

**LABRADOR TRANSMISSION CORPORATION**  
**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**March 31, 2023**  
**(Unaudited)**

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

<i>As at (thousands of Canadian dollars)</i>	Notes	March 31 2023	December 31 2022
<b>ASSETS</b>			
Current assets			
Restricted cash		155,649	150,337
Trade and other receivables		918	805
Short-term investments	4	6,827	6,827
Current portion of contract asset	5	48,473	46,639
Other current assets		522	498
<b>Total current assets</b>		<b>212,389</b>	<b>205,106</b>
Non-current assets			
Property, plant and equipment	3	979,096	978,499
Investments	4	39,836	39,836
Intangible assets		467	470
Right-of-use assets		217	217
Contract asset	5	177,311	160,686
<b>Total assets</b>		<b>1,409,316</b>	<b>1,384,814</b>
<b>LIABILITIES AND EQUITY</b>			
Current liabilities			
Trade and other payables		11,549	4,816
Related party loan payable	11	1,091	3,374
Current portion of long-term debt	6	6,827	6,827
Current portion of lease liabilities		1	1
<b>Total current liabilities</b>		<b>19,468</b>	<b>15,018</b>
Non-current liabilities			
Long-term debt	6	879,918	879,922
Lease liabilities		228	228
<b>Total liabilities</b>		<b>899,614</b>	<b>895,168</b>
Shareholder's equity			
Share capital		90,147	90,147
Shareholder contributions		274,877	274,877
Reserves		(10,097)	(10,256)
Retained earnings		154,775	134,878
<b>Total equity</b>		<b>509,702</b>	<b>489,646</b>
<b>Total liabilities and equity</b>		<b>1,409,316</b>	<b>1,384,814</b>

Commitments and contingencies (Note 12)

Subsequent event (Note 14)

See accompanying notes

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

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Notes	<b>Three months ended</b>	
		<b>2023</b>	2022
Revenue	11	<b>27,090</b>	27,088
<b>Total revenue</b>		<b>27,090</b>	27,088
Operating costs	8	<b>992</b>	1,353
Depreciation and amortization		<b>13</b>	8
Net finance expense	9	<b>5,255</b>	5,154
Other expense		<b>159</b>	161
<b>Total expenses</b>		<b>6,419</b>	6,676
<b>Profit for the period</b>		<b>20,671</b>	20,412
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>159</b>	161
<b>Other comprehensive income for the period</b>		<b>159</b>	161
<b>Total comprehensive income for the period</b>		<b>20,830</b>	20,573

*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	Total
<b>Balance at January 1, 2023</b>		<b>90,147</b>	<b>274,877</b>	<b>(10,256)</b>	<b>134,878</b>	<b>489,646</b>
<b>Profit for the period</b>		-	-	-	<b>20,671</b>	<b>20,671</b>
<b>Other comprehensive income</b>		-	-	<b>159</b>	-	<b>159</b>
<b>Total comprehensive income for the period</b>		-	-	<b>159</b>	<b>20,671</b>	<b>20,830</b>
<b>Dividends</b>	<b>7</b>	-	-	-	<b>(774)</b>	<b>(774)</b>
<b>Balance at March 31, 2023</b>		<b>90,147</b>	<b>274,877</b>	<b>(10,097)</b>	<b>154,775</b>	<b>509,702</b>
Balance at January 1, 2022		1	383,400	(10,897)	57,473	429,977
Profit for the period		-	-	-	20,412	20,412
Other comprehensive income		-	-	161	-	161
Total comprehensive income for the period		-	-	161	20,412	20,573
Capital restructuring		108,523	(108,523)	-	-	-
Balance at March 31, 2022		108,524	274,877	(10,736)	77,885	450,550

See accompanying notes

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

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Notes	<b>Three months ended</b>	
		<b>2023</b>	2022
<b>Operating activities</b>			
Profit for the period		<b>20,671</b>	20,412
Adjustments to reconcile profit to cash provided from operating activities:			
Depreciation and amortization		<b>172</b>	169
Finance income	9	<b>(2,221)</b>	(91)
Finance expense	9	<b>7,476</b>	5,245
		<b>26,098</b>	25,735
Changes in non-cash working capital balances	13	<b>(362)</b>	648
Increase in contract asset		<b>(18,459)</b>	(16,177)
Interest received		<b>2,187</b>	72
Interest paid		<b>(100)</b>	(131)
<b>Net cash provided from operating activities</b>		<b>9,364</b>	10,147
<b>Investing activities</b>			
Increase in investments		-	(53,391)
Additions to property, plant and equipment		<b>(608)</b>	25
Changes in non-cash working capital balances	13	<b>(397)</b>	(431)
<b>Net cash used in investing activities</b>		<b>(1,005)</b>	(53,797)
<b>Financing activities</b>			
Decrease in related party loan payable		<b>(2,273)</b>	(7,400)
Increase in restricted cash		<b>(5,312)</b>	(114,662)
Proceeds from long-term debt		-	165,712
Dividends	7	<b>(774)</b>	-
<b>Net cash (used in) provided from financing activities</b>		<b>(8,359)</b>	43,650
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)**

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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 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's principal activity is to 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 (LIL), 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 provides transmission interconnection services using 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, 2022.

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 May 15, 2023.

**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, 2022	11,487	977,117	833	989,437
Additions	-	633	-	633
Transfers	-	(496)	496	-
Balance at December 31, 2022	11,487	977,254	1,329	990,070
<b>Additions</b>	<b>-</b>	<b>608</b>	<b>-</b>	<b>608</b>
<b>Transfers</b>	<b>-</b>	<b>(653)</b>	<b>653</b>	<b>-</b>
<b>Balance at March 31, 2023</b>	<b>11,487</b>	<b>977,209</b>	<b>1,982</b>	<b>990,678</b>
<b>Depreciation</b>				
Balance at January 1, 2022	11,487	-	45	11,532
Depreciation	-	-	39	39
Balance at December 31, 2022	11,487	-	84	11,571
<b>Depreciation</b>	<b>-</b>	<b>-</b>	<b>11</b>	<b>11</b>
<b>Balance at March 31, 2023</b>	<b>11,487</b>	<b>-</b>	<b>95</b>	<b>11,582</b>
<b>Carrying value</b>				
Balance at January 1, 2022	-	977,117	788	977,905
Balance at December 31, 2022	-	977,254	1,245	978,499
<b>Balance at March 31, 2023</b>	<b>-</b>	<b>977,209</b>	<b>1,887</b>	<b>979,096</b>

**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	<b>March 31 2023</b>	December 31 2022
Amortizing Fixed Rate Deposit Notes with interest paid at a rate of 3.745% per annum.	2023- 2029	<b>46,663</b>	46,663
Less: redemptions to be received within one year		<b>(6,827)</b>	(6,827)
		<b>39,836</b>	39,836

**5. CONTRACT ASSET**

<i>As at (thousands of Canadian dollars)</i>	<b>March 31 2023</b>	December 31 2022
Contract asset, beginning of the period	<b>207,325</b>	133,104
Additions	<b>27,933</b>	111,937
Less: Receipts	<b>(9,474)</b>	(37,716)
Contract asset, end of the period	<b>225,784</b>	207,325
Less: current portion	<b>(48,473)</b>	(46,639)
	<b>177,311</b>	160,686

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.

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

**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	March 31 2023	December 31 2022
Tranche A	107,713	3.63	2013	2029	<b>107,728</b>	107,729
Tranche B	111,856	3.83	2013	2037	<b>111,867</b>	111,867
Tranche C	211,283	3.86	2013	2048	<b>211,314</b>	211,314
Tranche 6-10	17,264	1.52-1.75	2017	2023-2025	<b>17,265</b>	17,264
Tranche 11-20	37,166	1.84-2.37	2017	2025-2030	<b>37,172</b>	37,172
Tranche 21-30	41,858	2.41-2.64	2017	2030-2035	<b>41,872</b>	41,873
Tranche 31-40	47,756	2.66-2.80	2017	2035-2040	<b>47,794</b>	47,795
Tranche 41-50	54,857	2.81-2.86	2017	2040-2045	<b>54,904</b>	54,905
Tranche 51-60	63,150	2.84-2.86	2017	2045-2050	<b>63,223</b>	63,224
Tranche 61-64	27,848	2.85	2017	2050-2052	<b>27,894</b>	27,894
Tranche A-T	82,856	3.35-3.38	2022	2037-2047	<b>82,856</b>	82,856
Tranche U	82,856	3.38	2022	2057	<b>82,856</b>	82,856
<b>Total</b>	<b>886,463</b>				<b>886,745</b>	886,749
Less: maturities of debt within one year					<b>(6,827)</b>	(6,827)
					<b>879,918</b>	879,922

**7. SHAREHOLDER'S EQUITY**

**Dividends**

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Three months ended	
	2023	2022
Declared and paid during the period		
Preferred dividend for current period (3% coupon rate)	<b>667</b>	-
Common dividend for current period	<b>107</b>	-
	<b>774</b>	-

**8. OPERATING COSTS**

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Three months ended	
	2023	2022
Salaries and benefits	<b>566</b>	545
Other operating costs	<b>426</b>	808
	<b>992</b>	1,353



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

**9. NET FINANCE EXPENSE**

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	<b>Three months ended</b>	
	<b>2023</b>	<b>2022</b>
Finance income		
Interest on restricted cash	<b>1,786</b>	82
Interest on investments	<b>431</b>	5
Other interest	<b>4</b>	4
	<b>2,221</b>	91
Finance expense		
Interest and fees on long-term debt	<b>7,386</b>	5,155
Other interest	<b>90</b>	90
	<b>7,476</b>	5,245
Net finance expense	<b>5,255</b>	5,154

**10. 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 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 March 31, 2023 and year ended December 31, 2022.

As at March 31, 2023 and December 31, 2022 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
		March 31, 2023		December 31, 2022	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Investments, including short-term	2	46,663	44,527	46,663	43,743
Financial liabilities					
Long-term debt including amount due within one year	2	886,745	822,101	886,749	796,842

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.

**11. RELATED PARTY TRANSACTIONS**

Labrador Transco 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 Labrador Transco transacts are as follows:

Related Party	Relationship
Nalcor	100% shareholder of Labrador Transco
Hydro	Wholly-owned subsidiary of Nalcor
Muskkrat 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.

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

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

		<b>March 31</b>	December 31
		<b>2023</b>	2022
<i>As at (thousands of Canadian dollars)</i>			
<b>Trade and other receivables:</b>			
Other related parties		<b>29</b>	36
<b>Contract asset (including current portion):</b>			
Other related parties	Note 5	<b>225,784</b>	207,325
<b>Trade and other payables:</b>			
Parent		<b>796</b>	873
Other related parties		<b>500</b>	1,050
<b>Related party loan payable:</b>			
Other related parties	(a)	<b>1,091</b>	3,374
		<b>Three months ended</b>	
		<b>2023</b>	2022
<i>For the period ended March 31 (thousands of Canadian dollars)</i>			
<b>Revenue:</b>			
Other related parties		<b>27,090</b>	27,088
<b>Operating costs:</b>			
Parent		<b>632</b>	685

- (a) Labrador Transco has 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 provide interconnection transmission services to ensure safe and reliable transmission of energy and capacity. Revenue allocated to the remaining performance obligation (unsatisfied or partially unsatisfied) related to interconnection services as at March 31, 2023 total \$112.7 million within one year and \$5,582.9 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.
- (d) Outstanding commitments for capital projects total approximately \$1.3 million as at March 31, 2023 (December 31, 2022 - \$2.3 million).

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

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**13. SUPPLEMENTARY CASH FLOW INFORMATION**

	<b>Three months ended</b>	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	<b>2023</b>	<b>2022</b>
Trade and other receivables	<b>(82)</b>	4
Inventories	<b>(109)</b>	(77)
Prepayments	<b>85</b>	54
Trade and other payables	<b>(653)</b>	236
Changes in non-cash working capital balances	<b>(759)</b>	217
Related to:		
Operating activities	<b>(362)</b>	648
Investing activities	<b>(397)</b>	(431)
	<b>(759)</b>	217

**14. SUBSEQUENT EVENT**

On April 14, 2023, commissioning of the LIL was approved by all required stakeholders. All components of the Lower Churchill Project, the MF Plant, LTA and LIL are now commissioned.