

LABRADOR - ISLAND LINK HOLDING CORPORATION
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
September 30, 2023
(Unaudited)

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

<i>As at (thousands of Canadian dollars)</i>	Notes	September 30 2023	December 31 2022
			(Note 15)
ASSETS			
Current assets			
Cash		3,147	3,036
Restricted cash		404,221	373,922
Trade and other receivables		5,362	6,068
Related party receivable	12	80,920	-
Other current assets		3,083	2,317
Total current assets		496,733	385,343
Non-current assets			
Property, plant and equipment	3	5,026,863	5,000,733
Intangible assets	4	75,594	77,378
Right-of-use assets		609	2,234
Total assets		5,599,799	5,465,688
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	5	69,648	41,674
Contract liability	6	8,670	-
Current portion of long-term debt	7	21,000	21,000
Current portion of lease liabilities		3	91
Deferred revenue	12	42,338	112,900
Total current liabilities		141,659	175,665
Non-current liabilities			
Long-term debt	7	3,367,479	3,378,032
Class B limited partnership units	8	785,398	738,908
Lease liabilities		641	2,280
Contributions		10	10
Total liabilities		4,295,187	4,294,895
Shareholder's equity			
Share capital		1	1
Shareholder contributions		1,225,695	1,162,686
Retained earnings		78,916	8,106
Total equity		1,304,612	1,170,793
Total liabilities and equity		5,599,799	5,465,688

Commitments and contingencies (Note 13)

See accompanying notes

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

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Nine months ended	
		2023	2022	2023	2022
Revenue	12	106,032	-	194,334	-
Total revenue		106,032	-	194,334	-
Operating costs	9	1,663	105	3,708	2,059
Depreciation		23,341	-	46,713	-
Net finance expense (income)	10	41,198	(1,021)	73,533	(2,020)
Other (income) expense		(113)	28	(430)	108
Expenses		66,089	(888)	123,524	147
Total profit (loss) and comprehensive income (loss) for the period		39,943	888	70,810	(147)

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	-	-	70,810	70,810
Shareholder contributions	-	63,009	-	63,009
Balance at September 30, 2023	1	1,225,695	78,916	1,304,612
Balance at January 1, 2022	1	952,994	6,466	959,461
Total loss and comprehensive loss for the period	-	-	(147)	(147)
Shareholder contributions	-	209,683	-	209,683
Balance at September 30, 2022	1	1,162,677	6,319	1,168,997

See accompanying notes

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

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Nine months ended	
		2023	2022	2023	2022
Operating activities					
Profit (loss) for the period		39,943	888	70,810	(147)
Adjustments to reconcile profit (loss) to cash provided from (used in) operating activities:					
Depreciation and amortization		23,341	-	46,713	-
Finance income	10	(4,816)	(2,442)	(13,297)	(3,954)
Finance expense	10	46,014	1,421	86,830	1,934
Gain on disposals		(109)	-	(109)	-
		104,373	(133)	190,947	(2,167)
Changes in non-cash working capital balances	14	2,110	150	425	126
Increase in contract liability		3,945	-	8,670	-
Decrease in deferred revenue		(42,337)	-	(70,562)	-
Interest received		4,590	1,792	13,087	3,101
Interest paid		(402)	(554)	(59,998)	(59,900)
Net cash provided from (used in) operating activities		72,279	1,255	82,569	(58,840)
Investing activities					
Additions to property, plant and equipment		(4,919)	(16,188)	(21,064)	(35,735)
Additions to intangible assets	4	(261)	(46)	(693)	(159)
Change in related party receivable		990	-	(80,920)	-
Decrease in advances		-	81	-	383
Changes in non-cash working capital balances	14	2,004	4,981	(1,897)	(6,222)
Net cash used in investing activities		(2,186)	(11,172)	(104,574)	(41,733)
Financing activities					
Repayment of long-term debt		-	-	(10,500)	(10,500)
Increase in restricted cash		(70,053)	(135,396)	(30,299)	(98,020)
Shareholder contributions		-	145,378	63,009	209,683
Repayment of lease liabilities		-	(47)	(94)	(141)
Net cash (used in) provided from financing activities		(70,053)	9,935	22,116	101,022
Net increase in cash		40	18	111	449
Cash, beginning of the period		3,107	2,990	3,036	2,559
Cash, end of the period		3,147	3,008	3,147	3,008

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's head office is located at 500 Columbus Drive, St. John's, Newfoundland and Labrador, A1B 0M4, Canada.

LIL Holdco is a limited partner in the Labrador-Island Link Limited Partnership (LIL LP) and together with the Labrador-Island Link General Partner Corporation (LIL GP), represent Nalcor Energy (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 was established to carry on the business of designing, engineering, constructing, commissioning, owning, financing and sustaining 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 maintains and operates the LIL on behalf of LIL LP.

- 1.1** On June 28, 2023, the common shares of LIL Holdco transferred from Nalcor to LIL (2021) Limited Partnership (LIL (2021) LP). LIL Holdco continues to be controlled by Nalcor through its ownership of 100% of the common shares of Labrador-Island Link Holding (2021) Corporation (LIL Holdco (2021)), the limited partner of LIL (2021) 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 November 16, 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>	Transmission and Terminals	Service Facilities and Other	Construction in Progress (Note 15)	Total
Cost				
Balance at January 1, 2022	8,058	11,759	4,777,026	4,796,843
Additions	-	-	211,877	211,877
Other adjustments	-	-	(208)	(208)
Transfers	1,200	1,400	(2,600)	-
Balance at December 31, 2022	9,258	13,159	4,986,095	5,008,512
Additions	-	-	75,834	75,834
Other adjustments	-	(5,372)	(86)	(5,458)
Transfers	5,011,988	41,688	(5,053,676)	-
Balance at September 30, 2023	5,021,246	49,475	8,167	5,078,888
Depreciation				
Balance at January 1, 2022	53	7,032	-	7,085
Depreciation	101	593	-	694
Balance at December 31, 2022	154	7,625	-	7,779
Depreciation	42,916	1,330	-	44,246
Balance at September 30, 2023	43,070	8,955	-	52,025
Carrying value				
Balance at January 1, 2022	8,005	4,727	4,777,026	4,789,758
Balance at December 31, 2022	9,104	5,534	4,986,095	5,000,733
Balance at September 30, 2023	4,978,176	40,520	8,167	5,026,863

On April 14, 2023, commissioning of the LIL was approved by all required stakeholders resulting in full commissioning of all components of the Lower Churchill Project. The categories of property, plant and equipment have been updated to reflect this change.

Capitalized Borrowing Costs

The construction of the LIL was financed, in part, through the issuance of long-term debt. For the period ended September 30, 2023, \$31.8 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 \$17.4 million (December 31, 2022 - \$57.9 million) as non-cash additions to property, plant and equipment. Borrowing costs are no longer being capitalized as of April 14, 2023 upon commissioning of the LIL.

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

4. INTANGIBLE ASSETS

<i>(thousands of Canadian dollars)</i>	Computer Software	Other	Construction in Progress (Note 15)	Total
Cost				
Balance at January 1, 2022	3,055	35,644	39,696	78,395
Additions	-	236	1,256	1,492
Balance at December 31, 2022	3,055	35,880	40,952	79,887
Additions	-	129	564	693
Transfers	41,236	-	(41,236)	-
Balance at September 30, 2023	44,291	36,009	280	80,580
Amortization				
Balance at January 1, 2022	2,443	-	-	2,443
Amortization	66	-	-	66
Balance at December 31, 2022	2,509	-	-	2,509
Amortization	2,117	360	-	2,477
Balance at September 30, 2023	4,626	360	-	4,986
Carrying value				
Balance at January 1, 2022	612	35,644	39,696	75,952
Balance at December 31, 2022	546	35,880	40,952	77,378
Balance at September 30, 2023	39,665	35,649	280	75,594

Categories of intangible assets have been updated to reflect commissioning of the LIL assets.

Other intangible assets represent LIL LP's right to collect costs incurred related to upgrades to Hydro assets through the LIL Lease and TFA.

Computer software is amortized on a straight-line basis over the finite useful lives of one to 10 years.

5. TRADE AND OTHER PAYABLES

<i>As at (thousands of Canadian dollars)</i>	September 30 2023	December 31 2022
Accrued interest	39,409	9,866
Trade payables and accruals	21,595	25,050
HST payable	6,829	3,180
Due to related parties	1,815	3,578
	69,648	41,674

6. CONTRACT LIABILITY

<i>As at (thousands of Canadian dollars)</i>	September 30 2023	December 31 2022
Contract liability, beginning of the period	-	-
Revenue recognized	(194,524)	-
Payments	203,194	-
Contract liability, end of the period	8,670	-

The contract liability represents the timing difference between the satisfaction of performance obligations to LIL Opco under the LIL Lease and the timing of commercial payments.

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

7. 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	September 30 2023	December 31 2022
Tranche A	725,000	3.76	2013	2033	725,151	725,163
Tranche B	600,000	3.86	2013	2045	600,079	600,082
Tranche C	1,075,000	3.85	2013	2053	1,075,170	1,075,175
Tranche 7-10	42,000	1.59-1.75	2017	2023-2025	42,002	52,503
Tranche 11-20	105,000	1.84-2.37	2017	2025-2030	105,013	105,015
Tranche 21-30	105,000	2.41-2.64	2017	2030-2035	105,034	105,037
Tranche 31-40	105,000	2.66-2.80	2017	2035-2040	105,081	105,085
Tranche 41-50	105,000	2.81-2.86	2017	2040-2045	105,089	105,092
Tranche 51-60	105,000	2.84-2.86	2017	2045-2050	105,117	105,121
Tranche 61-70	105,000	2.85	2017	2050-2055	105,174	105,178
Tranche 71-74	315,000	2.85	2017	2055-2057	315,569	315,581
Total	3,387,000				3,388,479	3,399,032
Less: maturities of debt within one year					(21,000)	(21,000)
					3,367,479	3,378,032

8. LIMITED PARTNERSHIP UNITS

Class B Limited Partnership Units

<i>As at (thousands of Canadian dollars)</i>	Units	September 30 2023	Units	December 31 2022
Class B limited partnership units, beginning of the period	25	738,908	25	681,021
Accrued interest	-	46,490	-	57,887
Class B limited partnership units, end of the period	25	785,398	25	738,908

9. OPERATING COSTS

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2023	2022	2023	2022
Salaries and benefits	698	347	1,677	1,084
Professional fees	770	(375)	1,473	450
Other operating costs	195	133	558	525
	1,663	105	3,708	2,059

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

10. NET FINANCE EXPENSE (INCOME)

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2023	2022	2023	2022
Finance income				
Interest on restricted cash	4,798	2,424	13,243	3,898
Other interest	18	18	54	56
	4,816	2,442	13,297	3,954
Finance expense				
Interest and fees on long-term debt	29,557	29,634	88,736	85,977
Interest on Class B limited partnership units	16,056	14,733	46,490	42,848
Other interest	401	575	843	619
	46,014	44,942	136,069	129,444
Interest capitalized during construction	-	(43,521)	(49,239)	(127,510)
	46,014	1,421	86,830	1,934
Net finance expense (income)	41,198	(1,021)	73,533	(2,020)

11. FINANCIAL INSTRUMENTS

Fair Value

The estimated fair values of financial instruments as at September 30, 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 September 30, 2023 and the year ended December 31, 2022.

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

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		September 30, 2023		December 31, 2022	
<i>As at (thousands of Canadian dollars)</i>					
Financial liabilities					
Long-term debt including amount due within one year	2	3,388,479	2,837,775	3,399,032	3,084,492
Class B limited partnership units	3	785,398	785,398	738,908	738,908

The fair values of cash, restricted cash, trade and other receivables, related party receivable 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 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	(60,259)	56,339

12. 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 (2021) (Note 1.1)
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 Holdco (2021)	Wholly-owned subsidiary of Nalcor, limited partner of LIL (2021) LP
LIL (2021) LP	100% shareholder of LIL Holdco (Note 1.1)
LIL Opco	Wholly-owned subsidiary of Nalcor
Lower Churchill Management Corporation	Wholly-owned subsidiary of Nalcor
Muskrat Falls Corporation	Wholly-owned subsidiary of Nalcor

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

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>	September 30	December 31
	2023	2022
Trade and other receivables:		
Other related parties	352	-
Related party receivable:		
Other related parties (a)	80,920	-
Trade and other payables:		
Nalcor	512	3,156
Other related parties	1,303	422
Contract liability:		
Other related parties Note 6	8,670	-
Deferred revenue:		
Other related parties	42,338	112,900

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2023	2022	2023	2022
Additions to property, plant and equipment:				
Nalcor	-	2,189	3,333	6,955
Revenue:				
Other related parties	106,032	-	194,334	-
Operating costs:				
Nalcor	459	347	1,438	1,084

(a) LIL LP has a non-interest bearing receivable from LIL Opco which is payable from LIL Opco upon demand as cash is required to fund final construction costs of the LIL assets.

13. COMMITMENTS AND CONTINGENCIES

- (a) LIL LP is required to make mandatory distributions in accordance with the Labrador-Island Link Partnership Agreement (Partnership Agreement). The amount of periodic distributions will be determined by LIL GP and will commence in accordance with the LIL Project Finance Agreement (LIL PFA).
- (b) As part of the LIL PFA, 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.
- (c) Under the terms and conditions of the Partnership Agreement and the Newfoundland and Labrador Development 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, construct and sustain the LIL and LIL Opco operates and maintains the LIL and provides such other services as agreed to ensure safe and reliable transmission of electricity. Revenue allocated to the remaining performance obligation (unsatisfied or partially satisfied) related to transmission sales under the LIL Lease as at September 30, 2023 total \$424.4 million within one year and \$20,577.0 million in more than one year.
- (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.

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

- (f) Outstanding commitments for capital projects total approximately \$32.4 million as at September 30, 2023 (December 31, 2022 - \$24.9 million).

14. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2023	2022	2023	2022
Trade and other receivables	(1,953)	131	863	(580)
Prepayments	16	1,209	118	1,196
Inventories	(490)	(834)	(884)	(1,077)
Trade and other payables	6,541	4,625	(1,569)	(5,635)
Changes in non-cash working capital balances	4,114	5,131	(1,472)	(6,096)
Related to:				
Operating activities	2,110	150	425	126
Investing activities	2,004	4,981	(1,897)	(6,222)
	4,114	5,131	(1,472)	(6,096)

15. PRIOR PERIOD ADJUSTMENT

The December 31, 2022 comparative figures have been adjusted to conform with the current periods' presentation, incorporating a \$41.2 million reclassification from Property, plant and equipment to Intangible assets.