

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

**LABRADOR - ISLAND LINK OPERATING CORPORATION**  
**STATEMENT OF FINANCIAL POSITION**  
(Unaudited)

<i>As at (thousands of Canadian dollars)</i>	Notes	September 30 2023	December 31 2022
<b>ASSETS</b>			
Current assets			
Restricted cash	3	93,315	-
Short-term investments		11	11
Trade and other receivables	4	11,378	3,188
Related party receivable	10	8,670	-
Prepaid rent	10	42,338	112,900
Other current assets		2,509	-
<b>Total current assets</b>		<b>158,221</b>	<b>116,099</b>
Non-current assets			
Right-of-use assets		1,607	-
<b>Total assets</b>		<b>159,828</b>	<b>116,099</b>
<b>LIABILITIES AND EQUITY</b>			
Current liabilities			
Trade and other payables	5	6,677	223
Contract liability	6	8,017	-
Related party payable	10	80,920	-
Dividend payable	7	42,338	-
Current portion of lease liabilities		8	-
<b>Total current liabilities</b>		<b>137,960</b>	<b>223</b>
Non-current liabilities			
Lease liabilities		1,606	-
<b>Total liabilities</b>		<b>139,566</b>	<b>223</b>
Shareholder's equity			
Share capital		9,041	9,041
Shareholder contributions		106,903	106,903
Deficit		(95,682)	(68)
<b>Total equity</b>		<b>20,262</b>	<b>115,876</b>
<b>Total liabilities and equity</b>		<b>159,828</b>	<b>116,099</b>

Commitments and contingencies (Note 11)

See accompanying notes

**LABRADOR - ISLAND LINK OPERATING CORPORATION**  
**STATEMENT OF PROFIT AND COMPREHENSIVE INCOME**  
(Unaudited)

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Notes	<b>Three months ended</b>		<b>Nine months ended</b>	
		<b>2023</b>	2022	<b>2023</b>	2022
Revenue	10	<b>117,267</b>	-	<b>209,782</b>	-
Net finance income		<b>1,544</b>	21	<b>2,744</b>	33
<b>Total income</b>		<b>118,811</b>	21	<b>212,526</b>	33
Transmission expense	10	<b>106,033</b>	-	<b>194,335</b>	-
Depreciation		<b>9</b>	-	<b>9</b>	-
Operating costs	8	<b>10,726</b>	6	<b>15,008</b>	17
<b>Total expenses</b>		<b>116,768</b>	6	<b>209,352</b>	17
<b>Total profit and comprehensive income for the period</b>		<b>2,043</b>	15	<b>3,174</b>	16

*See accompanying notes*

**LABRADOR - ISLAND LINK OPERATING CORPORATION**  
**STATEMENT OF CHANGES IN EQUITY**  
(Unaudited)

<i>(thousands of Canadian dollars)</i>	Note	Share Capital	Shareholder Contributions	Deficit	Total
<b>Balance at January 1, 2023</b>		<b>9,041</b>	<b>106,903</b>	<b>(68)</b>	<b>115,876</b>
<b>Total profit and comprehensive income for the period</b>		-	-	<b>3,174</b>	<b>3,174</b>
<b>Dividends</b>	<b>7</b>	-	-	<b>(98,788)</b>	<b>(98,788)</b>
<b>Balance at September 30, 2023</b>		<b>9,041</b>	<b>106,903</b>	<b>(95,682)</b>	<b>20,262</b>
Balance at January 1, 2022		9,041	85,621	(103)	94,559
Total profit and comprehensive income for the period		-	-	16	16
Balance at September 30, 2022		9,041	85,621	(87)	94,575

*See accompanying notes*

**LABRADOR - ISLAND LINK OPERATING CORPORATION**  
**STATEMENT OF CASH FLOWS**  
**(Unaudited)**

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Notes	<b>Three months ended</b>		<b>Nine months ended</b>	
		<b>2023</b>	2022	<b>2023</b>	2022
<b>Operating activities</b>					
Profit for the period		<b>2,043</b>	15	<b>3,174</b>	16
Adjustments to reconcile profit to cash (used in) provided from operating activities:					
Depreciation		<b>9</b>	-	<b>9</b>	-
Finance income		<b>(1,567)</b>	(21)	<b>(2,767)</b>	(33)
Finance expense		<b>23</b>	-	<b>23</b>	-
		<b>508</b>	(6)	<b>439</b>	(17)
Changes in non-cash working capital balances	12	<b>(1,013)</b>	6	<b>(3,777)</b>	3,062
Change in contract liability		<b>(50)</b>	-	<b>8,017</b>	-
Increase in related party receivable		<b>(3,945)</b>	-	<b>(8,670)</b>	-
Interest received		<b>1,560</b>	17	<b>2,298</b>	25
<b>Net cash (used in) provided from operating activities</b>		<b>(2,940)</b>	17	<b>(1,693)</b>	3,070
<b>Investing activity</b>					
Decrease in prepaid rent		<b>42,337</b>	-	<b>70,562</b>	-
<b>Net cash provided from investing activity</b>		<b>42,337</b>	-	<b>70,562</b>	-
<b>Financing activities</b>					
Change in restricted cash		<b>3,954</b>	(17)	<b>(93,315)</b>	(3,070)
Change in related party payable		<b>(990)</b>	-	<b>80,920</b>	-
Dividends	7	<b>(42,337)</b>	-	<b>(56,450)</b>	-
Repayment of lease liabilities		<b>(24)</b>	-	<b>(24)</b>	-
<b>Net cash used in financing activities</b>		<b>(39,397)</b>	(17)	<b>(68,869)</b>	(3,070)
Net increase (decrease) in cash		-	-	-	-
Cash, beginning of the period		-	-	-	-
Cash, end of the period		-	-	-	-

*See accompanying notes*

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

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**1. DESCRIPTION OF BUSINESS**

Labrador-Island Link Operating Corporation (LIL Opco or the Company) was incorporated on November 13, 2013 under the laws of Newfoundland and Labrador. LIL Opco is a 100% owned subsidiary of Nalcor Energy (Nalcor). LIL Opco's head office is located at 500 Columbus Drive, St. John's, Newfoundland and Labrador, A1B 0M4, Canada.

LIL Opco was formed to operate and maintain the Labrador-Island Link (LIL). The LIL consists of equipment and facilities constructed between the Labrador Transmission Assets and the Newfoundland and Labrador Island Interconnected System.

LIL Opco has entered into the LIL Lease Agreement (LIL Lease) with the Labrador-Island Link Limited Partnership (LIL LP) and the Transmission Funding Agreement (TFA) with Newfoundland and Labrador Hydro (Hydro). As a result of these agreements, LIL Opco is the transmission provider for purposes of offering transmission service to Hydro over the LIL during the term of the TFA.

**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 LIL Opco'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 LIL Opco 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 November 16, 2023.

**3. RESTRICTED CASH**

Restricted cash consists of cash held on deposit with a Schedule 1 Canadian Chartered Bank and administered by the Collateral Agent. Restricted cash primarily consists of cash transferred from LIL LP relating to funding of final construction costs of the LIL assets (the related party payable). Restricted cash also consists of cash received under the TFA to be used to make LIL Lease payments and to pay operating and maintenance costs of the LIL with the residual amount to be used for distribution. LIL Opco draws funds from these accounts in accordance with procedures set out in the LIL Project Finance Agreement.

**4. TRADE AND OTHER RECEIVABLES**

	<b>September 30</b>	December 31
<i>As at (thousands of Canadian dollars)</i>	<b>2023</b>	2022
HST receivable	<b>10,715</b>	3,180
Accrued interest	<b>474</b>	6
Due from related parties	<b>189</b>	2
	<b>11,378</b>	3,188

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

**5. TRADE AND OTHER PAYABLES**

	<b>September 30</b>	December 31
<i>As at (thousands of Canadian dollars)</i>	<b>2023</b>	2022
Trade payables and accruals	<b>5,397</b>	5
Due to related parties	<b>1,280</b>	218
	<b>6,677</b>	223

**6. CONTRACT LIABILITY**

	<b>September 30</b>	December 31
<i>As at (thousands of Canadian dollars)</i>	<b>2023</b>	2022
Contract liability, beginning of the period	-	-
Revenue recognized	<b>(212,899)</b>	-
Payments	<b>220,916</b>	-
Contract liability, end of the period	<b>8,017</b>	-

The contract liability represents the timing difference between the satisfaction of performance obligations to Hydro under the TFA and the timing of commercial payments.

**7. SHAREHOLDER'S EQUITY**

**Dividends**

	<b>Three months ended</b>		<b>Nine months ended</b>	
<i>For the period ended September 30 (thousands of Canadian dollars)</i>	<b>2023</b>	2022	<b>2023</b>	2022
Declared and paid during the period				
Common dividend for current period	<b>42,337</b>	-	<b>56,450</b>	-
Declared during the period and payable				
Common dividend for current period	<b>(42,337)</b>	-	<b>42,338</b>	-
	<b>-</b>	-	<b>98,788</b>	-

Dividends payable were declared on June 21, 2023 to be paid in equal monthly installments.

**8. OPERATING COSTS**

	<b>Three months ended</b>		<b>Nine months ended</b>	
<i>For the period ended September 30 (thousands of Canadian dollars)</i>	<b>2023</b>	2022	<b>2023</b>	2022
Maintenance and materials	<b>5,833</b>	-	<b>7,448</b>	-
Salaries and benefits	<b>2,785</b>	-	<b>4,735</b>	-
Other operating costs	<b>2,108</b>	6	<b>2,825</b>	17
	<b>10,726</b>	6	<b>15,008</b>	17

**9. 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 Opco might receive or incur in actual market transactions.

As a significant number of LIL Opco'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 Opco as a whole.

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

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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.

As at September 30, 2023 and December 31, 2022, the Company did not have any Level 2 or Level 3 instruments. The fair values of restricted cash, short-term investments, trade and other receivables, related party receivable, trade and other payables, related party payable and dividend payable approximate their carrying values due to their short-term maturity.

**10. RELATED PARTY TRANSACTIONS**

LIL Opco 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 Opco transacts are as follows:

<u>Related Party</u>	<u>Relationship</u>
Nalcor	100% shareholder of LIL Opco
Hydro	Wholly-owned subsidiary of Nalcor
Lower Churchill Management Corporation	Wholly-owned subsidiary of Nalcor
LIL LP	Limited partnership between Labrador-Island Link Holding Corporation and Emera Newfoundland and Labrador Island Link Inc.



**LABRADOR - ISLAND LINK OPERATING 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:

<i>As at (thousands of Canadian dollars)</i>	<b>September 30</b>		<b>December 31</b>	
	<b>2023</b>		<b>2022</b>	
<b>Trade and other receivables:</b>				
Other related parties		<b>189</b>		2
<b>Related party receivable:</b>				
Other related parties (a)		<b>8,670</b>		-
<b>Prepaid rent:</b>				
Other related parties		<b>42,338</b>	112,900	
<b>Trade and other payables:</b>				
Parent		<b>1,254</b>		145
Other related parties		<b>26</b>		73
<b>Contract liability:</b>				
Other related parties Note 6		<b>8,017</b>		-
<b>Related party payable:</b>				
Other related parties (b)		<b>80,920</b>		-
		<b>Three months ended</b>	<b>Nine months ended</b>	
		<b>2023</b>	<b>2022</b>	
<i>For the period ended September 30 (thousands of Canadian dollars)</i>				
<b>Revenue:</b>				
Other related parties	<b>117,267</b>	-	<b>209,782</b>	-
<b>Transmission expense:</b>				
Other related parties	<b>106,033</b>	-	<b>194,335</b>	-
<b>Operating costs:</b>				
Parent	<b>2,678</b>	-	<b>4,478</b>	-

(a) The related party receivable represents the timing differences between the satisfaction of performance obligations from LIL LP under the LIL Lease and the timing of commercial payments.

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

**11. COMMITMENTS AND CONTINGENCIES**

(a) On November 30, 2013, LIL Opco entered into the LIL Lease to rent the LIL assets from LIL LP. Under the terms of the agreement, LIL Opco assumes the responsibility for operating and maintaining the LIL and provides rent payments to LIL LP as consideration for LIL LP renting, sub-letting, assigning or licensing as applicable, all assets and rights associated with the LIL. The rent payments will be sufficient to recover all costs associated with the LIL over the term of its service life. LIL Opco's obligation to make rent payments to LIL LP is absolute, unconditional and irrevocable until the initial financing obtained by LIL LP has been paid in full.

(b) In conjunction with the LIL Lease, LIL Opco also entered into the TFA with Hydro. The TFA payments will be sufficient for LIL Opco to recover all costs associated with rent payments under the LIL Lease, all costs associated with operating and maintenance incurred by LIL Opco and an administrative fee of \$30 thousand per year. The TFA payments ensure LIL Opco can meet its obligations under the LIL Lease. Hydro's obligation to make payments under the TFA is absolute, unconditional and irrevocable once the LIL is commissioned. Revenue allocated to the remaining performance obligation (unsatisfied or partially unsatisfied) related to transmission sales under the TFA as at September 30, 2023 total \$458.8 million within one year and \$23,307.6 million in more than one year.

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

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- (c) LIL Opco has irrevocably, absolutely and unconditionally guaranteed the due and timely payment of all obligations of LIL LP in accordance with the LIL Project Finance Agreement. This guarantee is that of payment and not merely a guarantee of collection. LIL Opco has also granted first ranking liens on all its respective present and future assets other than excluded deposits and contributed surplus.
- (d) LIL Opco is subject to various legal proceedings and claims in the normal course of business. Although the outcome of such actions cannot be predicted with certainty, Management believes the Company's exposure to such claims and litigation will not materially affect its financial position or results of operations.

**12. SUPPLEMENTARY CASH FLOW INFORMATION**

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
Trade and other receivables	<b>436</b>	-	<b>(7,722)</b>	3,046
Prepayments	<b>(2,509)</b>	-	<b>(2,509)</b>	-
Trade and other payables	<b>1,060</b>	6	<b>6,454</b>	16
Changes in non-cash working capital balances	<b>(1,013)</b>	6	<b>(3,777)</b>	3,062
Related to:				
Operating activities	<b>(1,013)</b>	6	<b>(3,777)</b>	3,062