

LABRADOR TRANSMISSION CORPORATION
CONDENSED INTERIM FINANCIAL STATEMENTS
September 30, 2023
(Unaudited)

LABRADOR TRANSMISSION CORPORATION
STATEMENT OF FINANCIAL POSITION
(Unaudited)

<i>As at (thousands of Canadian dollars)</i>	Notes	September 30 2023	December 31 2022
ASSETS			
Current assets			
Restricted cash		149,790	150,337
Trade and other receivables		841	805
Short-term investments	4	6,880	6,827
Current portion of contract asset	5	52,458	46,639
Other current assets		916	498
Total current assets		210,885	205,106
Non-current assets			
Property, plant and equipment	3	971,561	978,499
Investments	4	36,396	39,836
Intangible assets		1,100	470
Right-of-use assets		217	217
Contract asset	5	210,001	160,686
Total assets		1,430,160	1,384,814
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	6	11,288	4,816
Related party loan payable	12	-	3,374
Current portion of long-term debt	7	6,880	6,827
Current portion of lease liabilities		1	1
Total current liabilities		18,169	15,018
Non-current liabilities			
Long-term debt	7	876,469	879,922
Lease liabilities		228	228
Total liabilities		894,866	895,168
Shareholder's equity			
Share capital		90,147	90,147
Shareholder contributions		274,877	274,877
Reserves		(9,779)	(10,256)
Retained earnings		180,049	134,878
Total equity		535,294	489,646
Total liabilities and equity		1,430,160	1,384,814

Commitments and contingencies (Note 13)

See accompanying notes

LABRADOR TRANSMISSION CORPORATION
STATEMENT OF PROFIT AND COMPREHENSIVE INCOME
(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	28,428	26,125	84,315	79,733
Total revenue		28,428	26,125	84,315	79,733
Operating costs	9	989	1,166	3,720	3,802
Depreciation and amortization		4,062	9	8,137	26
Net finance expense	10	5,095	6,108	15,403	17,630
Other expense		159	160	455	481
Total expenses		10,305	7,443	27,715	21,939
Profit for the period		18,123	18,682	56,600	57,794
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		159	160	477	481
Other comprehensive income for the period		159	160	477	481
Total comprehensive income for the period		18,282	18,842	57,077	58,275

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
Balance at January 1, 2023		90,147	274,877	(10,256)	134,878	489,646
Profit for the period		-	-	-	56,600	56,600
Other comprehensive income		-	-	477	-	477
Total comprehensive income for the period		-	-	477	56,600	57,077
Dividends	8	-	-	-	(11,429)	(11,429)
Balance at September 30, 2023		90,147	274,877	(9,779)	180,049	535,294
Balance at January 1, 2022		1	383,400	(10,897)	57,473	429,977
Profit for the period		-	-	-	57,794	57,794
Other comprehensive income		-	-	481	-	481
Total comprehensive income for the period		-	-	481	57,794	58,275
Capital restructuring		108,523	(108,523)	-	-	-
Share redemption		(18,377)	-	-	-	(18,377)
Dividends	8	-	-	-	(2,886)	(2,886)
Balance at September 30, 2022		90,147	274,877	(10,416)	112,381	466,989

See accompanying notes

LABRADOR TRANSMISSION CORPORATION
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 for the period		18,123	18,682	56,600	57,794
Adjustments to reconcile profit to cash provided from operating activities:					
Depreciation and amortization		4,221	169	8,614	507
Finance income	10	(2,358)	(1,568)	(6,926)	(2,706)
Finance expense	10	7,453	7,676	22,329	20,336
		27,439	24,959	80,617	75,931
Changes in non-cash working capital balances	14	199	311	(1,059)	1,071
Increase in contract asset		(17,717)	(16,416)	(55,134)	(53,127)
Interest received		2,327	1,365	6,855	2,111
Interest paid		(80)	(277)	(14,975)	(13,395)
Net cash provided from operating activities		12,168	9,942	16,304	12,591
Investing activities					
Change in investments		-	-	3,387	(50,050)
Additions to property, plant and equipment		(344)	(179)	(1,191)	(254)
Additions to intangible assets		(638)	-	(638)	-
Changes in non-cash working capital balances	14	(418)	(184)	(234)	228
Net cash (used in) provided from investing activities		(1,400)	(363)	1,324	(50,076)
Financing activities					
Change in related party loan payable		-	373	(3,359)	(9,419)
Change in restricted cash		(8,204)	(7,978)	547	(94,204)
Repayment of long-term debt		-	-	(3,387)	(3,341)
Proceeds from long-term debt		-	-	-	165,712
Share redemption		-	-	-	(18,377)
Dividends	8	(2,564)	(1,974)	(11,429)	(2,886)
Net cash (used in) provided from financing activities		(10,768)	(9,579)	(17,628)	37,485
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'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 November 16, 2023.

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

3. PROPERTY, PLANT AND EQUIPMENT

<i>(thousands of Canadian dollars)</i>	Transmission and Terminals	Service Facilities & Other	Construction in Progress	Total
Cost				
Balance at January 1, 2022	564	11,756	977,117	989,437
Additions	-	-	633	633
Transfers	318	178	(496)	-
Balance at December 31, 2022	882	11,934	977,254	990,070
Additions	-	-	1,191	1,191
Transfers	971,718	5,218	(976,936)	-
Balance at September 30, 2023	972,600	17,152	1,509	991,261
Depreciation				
Balance at January 1, 2022	6	11,526	-	11,532
Depreciation	13	26	-	39
Balance at December 31, 2022	19	11,552	-	11,571
Depreciation	7,981	148	-	8,129
Balance at September 30, 2023	8,000	11,700	-	19,700
Carrying value				
Balance at January 1, 2022	558	230	977,117	977,905
Balance at December 31, 2022	863	382	977,254	978,499
Balance at September 30, 2023	964,600	5,452	1,509	971,561

On April 14, 2023, commissioning of the LIL was approved by all required stakeholders. As a result, all components of the Lower Churchill Project, including the LTA, were put into service. The categories of property, plant and equipment have been updated to reflect this change, including the comparative information to conform to the current year presentation.

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	September 30 2023	December 31 2022
Amortizing Fixed Rate Deposit Notes with interest paid at a rate of 3.745% per annum.	2023- 2029	43,276	46,663
Less: redemptions to be received within one year		(6,880)	(6,827)
		36,396	39,836

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

5. CONTRACT ASSET

	September 30	December 31
<i>As at (thousands of Canadian dollars)</i>	2023	2022
Contract asset, beginning of the period	207,325	133,104
Revenue recognized	85,103	111,937
Payments	(29,969)	(37,716)
Contract asset, end of the period	262,459	207,325
Less: current portion	(52,458)	(46,639)
	210,001	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.

6. TRADE AND OTHER PAYABLES

	September 30	December 31
<i>As at (thousands of Canadian dollars)</i>	2023	2022
Accrued interest	9,830	2,462
Trade payables and accruals	779	431
Due to related parties	679	1,923
	11,288	4,816

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	December 31
					2023	2022
Tranche A	107,713	3.63	2013	2029	107,727	107,729
Tranche B	111,856	3.83	2013	2037	111,866	111,867
Tranche C	211,283	3.86	2013	2048	211,313	211,314
Tranche 7-10	13,877	1.59-1.75	2017	2023-2025	13,878	17,264
Tranche 11-20	37,166	1.84-2.37	2017	2025-2030	37,171	37,172
Tranche 21-30	41,858	2.41-2.64	2017	2030-2035	41,872	41,873
Tranche 31-40	47,756	2.66-2.80	2017	2035-2040	47,793	47,795
Tranche 41-50	54,857	2.81-2.86	2017	2040-2045	54,903	54,905
Tranche 51-60	63,150	2.84-2.86	2017	2045-2050	63,221	63,224
Tranche 61-64	27,848	2.85	2017	2050-2052	27,893	27,894
Tranche A-T	82,856	3.35-3.38	2022	2037-2047	82,856	82,856
Tranche U	82,856	3.38	2022	2057	82,856	82,856
Total	883,076				883,349	886,749
Less: maturities of debt within one year					(6,880)	(6,827)
					876,469	879,922

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

8. SHAREHOLDER'S EQUITY

Dividends

	Three months ended		Nine months ended	
<i>For the period ended September 30 (thousands of Canadian dollars)</i>	2023	2022	2023	2022
Declared and paid during the period				
Preferred dividend for current period (3% coupon rate)	682	681	2,023	1,474
Common dividend for current period	1,882	1,293	9,406	1,412
	2,564	1,974	11,429	2,886

9. OPERATING COSTS

	Three months ended		Nine months ended	
<i>For the period ended September 30 (thousands of Canadian dollars)</i>	2023	2022	2023	2022
Salaries and benefits	548	495	1,862	1,642
Other operating costs	333	137	1,041	1,217
Maintenance and materials	108	534	817	943
	989	1,166	3,720	3,802

10. NET FINANCE EXPENSE

	Three months ended		Nine months ended	
<i>For the period ended September 30 (thousands of Canadian dollars)</i>	2023	2022	2023	2022
Finance income				
Interest on restricted cash	1,946	1,091	5,651	1,729
Interest on investments	408	473	1,262	964
Other interest	4	4	13	13
	2,358	1,568	6,926	2,706
Finance expense				
Interest and fees on long-term debt	7,373	7,398	22,140	19,962
Other interest	80	278	189	374
	7,453	7,676	22,329	20,336
Net finance expense	5,095	6,108	15,403	17,630

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 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.

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

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 year ended December 31, 2022.

As at September 30, 2023 and December 31, 2022 the Company did not have any Level 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		September 30, 2023		December 31, 2022	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Investments, including short-term	2	43,276	39,691	46,663	43,743
Financial liabilities					
Long-term debt including amount due within one year	2	883,349	737,066	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.

12. 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.

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:

<i>As at (thousands of Canadian dollars)</i>		September 30 2023	December 31 2022
Trade and other receivables:			
Other related parties		22	36
Contract asset (including current portion):			
Other related parties	Note 5	262,459	207,325
Trade and other payables:			
Parent		329	873
Other related parties		350	1,050
Related party loan payable:			
Other related parties	(a)	-	3,374
		Three months ended 2023	September 30 2022
		2023	2022
Revenue:			
Other related parties		28,428	26,125
Operating costs:			
Parent		568	535
		2,012	1,857

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

13. 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 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 September 30, 2023 total \$115.2 million within one year and \$5,704.0 million in more than one year.
- (b) As part of the MF/LTA Project Finance Agreement, 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 \$1.7 million as at September 30, 2023 (December 31, 2022 - \$2.3 million).

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

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	(14)	(7)	21	(151)
Inventories	(29)	(11)	(339)	(105)
Prepayments	(248)	(226)	(79)	(112)
Trade and other payables	72	371	(896)	1,667
Changes in non-cash working capital balances	(219)	127	(1,293)	1,299
Related to:				
Operating activities	199	311	(1,059)	1,071
Investing activities	(418)	(184)	(234)	228
	(219)	127	(1,293)	1,299