

LABRADOR - ISLAND LINK HOLDING CORPORATION
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
March 31, 2024
(Unaudited)

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

<i>As at (thousands of Canadian dollars)</i>	Notes	March 31 2024	December 31 2023
ASSETS			
Current assets			
Cash		743	103,029
Restricted cash		279,102	261,514
Trade and other receivables		1,083	2,350
Related party receivable	12	69,092	71,725
Other current assets		3,363	3,192
Total current assets		353,383	441,810
Non-current assets			
Property, plant and equipment	3	4,994,617	5,013,262
Intangible assets		73,690	74,875
Right-of-use assets		598	598
Total assets		5,422,288	5,530,545
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	4	59,031	38,793
Contract liability	5	13,134	11,518
Current portion of long-term debt	6	21,000	21,000
Current portion of Class B limited partnership units	7	95,898	87,866
Current portion of lease liabilities		4	4
Total current liabilities		189,067	159,181
Non-current liabilities			
Long-term debt	6	3,356,943	3,356,961
Class B limited partnership units	7	652,154	668,846
Lease liabilities		637	637
Total liabilities		4,198,801	4,185,625
Shareholder's equity			
Share capital		1	1
Shareholder contributions		1,225,695	1,225,695
(Deficit) Retained earnings		(2,209)	119,224
Total equity		1,223,487	1,344,920
Total liabilities and equity		5,422,288	5,530,545

Commitments and contingencies (Note 13)

Subsequent event (Note 15)

See accompanying notes

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

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Notes	Three months ended	
		2024	2023
Revenue	12	106,226	-
Other income		-	5
Total revenue		106,226	5
Operating costs	9	1,493	338
Depreciation and amortization		23,380	-
Net finance expense (income)	10	39,843	(1,257)
Total expense		64,716	(919)
Total profit and comprehensive income for the period		41,510	924

See accompanying notes

LABRADOR - ISLAND LINK HOLDING CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Unaudited)

<i>(thousands of Canadian dollars)</i>	Note	Share Capital	Shareholder Contributions	(Deficit) Retained Earnings	Total
Balance at January 1, 2024		1	1,225,695	119,224	1,344,920
Total profit and comprehensive income for the period		-	-	41,510	41,510
Dividends	8	-	-	(162,943)	(162,943)
Balance at March 31, 2024		1	1,225,695	(2,209)	1,223,487
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

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	
		2024	2023
Operating activities			
Profit for the period		41,510	924
Adjustments to reconcile profit to cash provided from operating activities:			
Depreciation and amortization		23,380	-
Finance income	10	(5,323)	(4,282)
Finance expense	10	45,166	3,025
		104,733	(333)
Changes in non-cash working capital balances	14	4,022	(184)
Increase in contract liability		1,616	-
Interest received		5,550	4,170
Interest paid		(9,941)	(138)
Net cash provided from operating activities		105,980	3,515
Investing activities			
Additions to property, plant and equipment	3	(3,509)	(10,912)
Additions to intangible assets		(41)	(58)
Decrease in related party receivable		2,633	-
Changes in non-cash working capital balances	14	(2,610)	(3,468)
Net cash used in investing activities		(3,527)	(14,438)
Financing activities			
Change in restricted cash		(17,588)	10,996
Shareholder contributions		-	9
Distribution of Class B limited partnership units	7	(24,208)	-
Dividends	8	(162,943)	-
Repayment of lease liabilities		-	(47)
Net cash (used in) provided from financing activities		(204,739)	10,958
Net (decrease) increase in cash		(102,286)	35
Cash, beginning of the period		103,029	3,036
Cash, end of the period		743	3,071

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. LIL Holdco is a 100% owned subsidiary of LIL (2021) Limited Partnership (LIL (2021) LP). 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 or the Partnership) and together with the Labrador-Island Link General Partner Corporation (LIL GP), represent Nalcor Energy (Nalcor)'s interests in LIL LP. ENL Island Link Incorporated (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). These agreements effectively provide Hydro with transmission services over the LIL. LIL Opco maintains and operates the LIL on behalf of LIL LP.

2. MATERIAL 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, 2023.

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, 2024.

2.2 Basis of Consolidation

These condensed consolidated interim financial statements include the financial statements of LIL Holdco, LIL LP and prior year comparatives of the LIL Construction Project Trust (the IT). Intercompany transactions and balances have been eliminated upon consolidation. Upon commissioning of the LIL on April 14, 2023, the IT assigned all indebtedness, rights, titles and interest under the IT Project Finance Agreement (IT PFA) to the Labrador – Island Link Funding Trust and was later terminated on December 22, 2023.

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	Total
Cost				
Balance at January 1, 2023	9,258	13,159	4,986,095	5,008,512
Additions	-	-	78,948	78,948
Transfers	5,020,750	37,185	(5,057,935)	-
Balance at December 31, 2023	5,030,008	50,344	7,108	5,087,460
Additions	-	-	3,509	3,509
Transfers	514	242	(756)	-
Balance at March 31, 2024	5,030,522	50,586	9,861	5,090,969
Depreciation				
Balance at January 1, 2023	154	7,625	-	7,779
Depreciation	64,495	1,924	-	66,419
Balance at December 31, 2023	64,649	9,549	-	74,198
Depreciation	21,558	596	-	22,154
Balance at March 31, 2024	86,207	10,145	-	96,352
Carrying value				
Balance at January 1, 2023	9,104	5,534	4,986,095	5,000,733
Balance at December 31, 2023	4,965,359	40,795	7,108	5,013,262
Balance at March 31, 2024	4,944,315	40,441	9,861	4,994,617

Capitalized Borrowing Costs

The construction of the LIL was financed, in part, through the issuance of long-term debt. For the period ended March 31, 2024, \$nil (December 31, 2023 - \$31.8 million) of borrowing costs were capitalized. The Company also capitalized borrowing costs associated with the Class B units of \$nil (December 31, 2023 - \$17.4 million) as non-cash additions to property, plant and equipment.

4. TRADE AND OTHER PAYABLES

<i>As at (thousands of Canadian dollars)</i>	March 31 2024	December 31 2023
Accrued interest	29,515	9,839
Trade payables and accruals	20,235	23,780
HST payable	5,392	3,393
Due to related parties	3,889	1,781
	59,031	38,793

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

5. CONTRACT LIABILITY

	March 31	December 31
<i>As at (thousands of Canadian dollars)</i>	2024	2023
Contract liability, beginning of the period	11,518	-
Revenue recognized	(106,226)	(300,895)
Payments	107,842	312,413
Contract liability, end of the period	13,134	11,518

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.

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	December 31
					2024	2023
Tranche A	725,000	3.76	2013	2033	725,143	725,147
Tranche B	600,000	3.86	2013	2045	600,077	600,078
Tranche C	1,075,000	3.85	2013	2053	1,075,167	1,075,169
Tranche 8-10	31,500	1.62-1.75	2017	2024-2025	31,501	31,501
Tranche 11-20	105,000	1.84-2.37	2017	2025-2030	105,011	105,012
Tranche 21-30	105,000	2.41-2.64	2017	2030-2035	105,033	105,034
Tranche 31-40	105,000	2.66-2.80	2017	2035-2040	105,078	105,079
Tranche 41-50	105,000	2.81-2.86	2017	2040-2045	105,087	105,088
Tranche 51-60	105,000	2.84-2.86	2017	2045-2050	105,115	105,116
Tranche 61-70	105,000	2.85	2017	2050-2055	105,171	105,173
Tranche 71-74	315,000	2.85	2017	2055-2057	315,560	315,564
Total	3,376,500				3,377,943	3,377,961
Less: maturities of debt within one year					(21,000)	(21,000)
					3,356,943	3,356,961

7. LIMITED PARTNERSHIP UNITS

Class B Limited Partnership Units

<i>As at (thousands of Canadian dollars)</i>	Units	March 31	Units	December 31
		2024		2023
Class B limited partnership units, beginning of the period	25	756,712	25	738,908
Accrued interest	-	15,548	-	62,777
Distributions	-	(24,208)	-	(44,973)
Class B limited partnership units, end of the period	25	748,052	25	756,712
Less: maturities within one year		(95,898)		(87,866)
		652,154		668,846

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

8. SHAREHOLDER'S EQUITY

Dividends

	Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	2024	2023
Declared and paid during the period		
Common dividend for current period	162,943	-

9. OPERATING COSTS

	Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	2024	2023
Maintenance and materials	706	5
Salaries and benefits	385	151
Professional fees	248	21
Other operating costs	154	161
	1,493	338

10. NET FINANCE EXPENSE (INCOME)

	Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	2024	2023
Finance income		
Interest on restricted cash	5,305	4,264
Other interest	18	18
	5,323	4,282
Finance expense		
Interest and fees on long-term debt	29,515	29,596
Interest on Class B limited partnership units	15,548	15,014
Other interest	103	158
	45,166	44,768
Interest capitalized during construction	-	(41,743)
	45,166	3,025
Net finance expense (income)	39,843	(1,257)

11. FINANCIAL INSTRUMENTS

Fair Value

The estimated fair values of financial instruments as at March 31, 2024 and December 31, 2023 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:

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

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, 2024 and the year ended December 31, 2023.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		March 31, 2024		December 31, 2023	
<i>As at (thousands of Canadian dollars)</i>					
Financial liabilities					
Long-term debt including amount due within one year	2	3,377,943	3,058,600	3,377,961	3,194,901
Class B limited partnership units, including amount due within one year	3	748,052	748,052	756,712	756,712

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, 2023 - 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	(66,727)	62,099

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 normally within 30 days.

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

Related parties with which LIL Holdco transacts are as follows:

Related Party	Relationship
Nalcor	100% shareholder of Labrador-Island Link Holding (2021) Corporation (LIL Holdco (2021))
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
LIL Opco	Wholly-owned subsidiary of Nalcor
Lower Churchill Management Corporation	Wholly-owned subsidiary of Nalcor
Muskat Falls Corporation	Wholly-owned subsidiary of Nalcor

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>		March 31 2024	December 31 2023
Related party receivable:			
Other related parties	(a)	69,092	71,725
Trade and other payables:			
Other related parties	Note 4	3,889	1,781
Contract liability:			
Other related parties	Note 5	13,134	11,518
		Three months ended 2024	2023
<i>For the period ended March 31 (thousands of Canadian dollars)</i>			
Additions to property, plant and equipment:			
Other related parties		-	2,600
Revenue:			
Other related parties	(b)	106,226	-
Operating costs:			
Other related parties		66	151

(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 remaining construction costs of the LIL assets.

(b) LIL LP has revenue with LIL Opco in relation to the LIL Lease.

13. COMMITMENTS AND CONTINGENCIES

(a) LIL LP is required to make mandatory distributions as determined by LIL GP in accordance with the Labrador-Island Link Limited Partnership Agreement (Partnership Agreement).

(b) As part of the LIL Project Finance Agreement, LIL LP has pledged its current and future assets as security to the Collateral Agent.

(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.

LABRADOR - ISLAND LINK HOLDING CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

- (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 unsatisfied) related to transmission sales under the LIL Lease as at March 31, 2024 is \$425 million (December 31, 2023 - \$425 million) within one year and \$20,363 million (December 31, 2023 - \$20,469 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.
- (f) Outstanding commitments for capital projects total approximately \$11.7 million as at March 31, 2024 (December 31, 2023 - \$20.7 million).

14. SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	2024	2023
Trade and other receivables	1,021	2,943
Prepayments	14	52
Inventories	(185)	(230)
Trade and other payables	562	(6,417)
Changes in non-cash working capital balances	1,412	(3,652)
Related to:		
Operating activities	4,022	(184)
Investing activities	(2,610)	(3,468)
	1,412	(3,652)

15. SUBSEQUENT EVENT

On April 19, 2024, a fire damaged inventory and capital spares, related to the Lower Churchill Project assets, held in a storage facility in Happy Valley Goose Bay. The extent of the financial impact on LIL Holdco is currently under investigation.