

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

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

<i>As at (thousands of Canadian dollars)</i>	Notes	March 31 2024	December 31 2023
ASSETS			
Current assets			
Restricted cash		78,629	90,672
Short-term investments		12	-
Trade and other receivables	3	17,895	7,711
Related party receivable	7	13,134	11,518
Other current assets		837	1,672
Total current assets		110,507	111,573
Non-current assets			
Right-of-use assets		1,843	1,898
Total assets		112,350	113,471
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		5,007	5,841
Contract liability	4	13,673	12,550
Related party payable	7	69,092	71,725
Current portion of lease liabilities		197	193
Total current liabilities		87,969	90,309
Non-current liabilities			
Lease liabilities		1,674	1,725
Total liabilities		89,643	92,034
Shareholder's equity			
Share capital		9,041	9,041
Shareholder contributions		106,903	106,903
Deficit		(93,237)	(94,507)
Total equity		22,707	21,437
Total liabilities and equity		112,350	113,471

Commitments and contingencies (Note 8)

See accompanying notes

LABRADOR - ISLAND LINK OPERATING CORPORATION
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	7	112,811	-
Net finance income		1,195	16
Total revenue		114,006	16
Operating costs	5	6,455	5
Transmission expense	7	106,226	-
Depreciation		55	-
Total expenses		112,736	5
Total profit and comprehensive income for the period		1,270	11

See accompanying notes

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

<i>(thousands of Canadian dollars)</i>	Share Capital	Shareholder Contributions	Deficit	Total
Balance at January 1, 2024	9,041	106,903	(94,507)	21,437
Total profit and comprehensive income for the period	-	-	1,270	1,270
Balance at March 31, 2024	9,041	106,903	(93,237)	22,707
Balance at January 1, 2023	9,041	106,903	(68)	115,876
Total profit and comprehensive income for the period	-	-	11	11
Balance at March 31, 2023	9,041	106,903	(57)	115,887

See accompanying notes

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

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Note	Three months ended	
		2024	2023
Operating activities			
Profit for the period		1,270	11
Adjustments to reconcile profit to cash (used in) provided from operating activities:			
Depreciation		55	-
Finance income		(1,221)	(16)
Finance expense		26	-
		130	(5)
Changes in non-cash working capital balances	9	(10,310)	3,184
Increase in contract liability		1,123	-
Increase in related party receivable		(1,616)	-
Interest received		1,348	9
Net cash (used in) provided from operating activities		(9,325)	3,188
Investing activity			
Increase in short-term investments		(12)	-
Net cash used in investing activity		(12)	-
Financing activities			
Change in restricted cash		12,043	(3,188)
Decrease in related party payable		(2,633)	-
Repayment of lease liabilities		(73)	-
Net cash provided from (used in) financing activities		9,337	(3,188)
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)

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. MATERIAL 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, 2023.

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 May 15, 2024.

3. TRADE AND OTHER RECEIVABLES

	March 31	December 31
<i>As at (thousands of Canadian dollars)</i>	2024	2023
HST receivable	16,582	6,925
Due from related parties	932	255
Accrued interest	373	500
Trade receivables	8	31
	17,895	7,711

4. CONTRACT LIABILITY

	March 31	December 31
<i>As at (thousands of Canadian dollars)</i>	2024	2023
Contract liability, beginning of the period	12,550	-
Revenue recognized	(112,811)	(325,313)
Payments	113,934	337,863
Contract liability, end of the period	13,673	12,550

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

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

5. OPERATING COSTS

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Three months ended	
	2024	2023
Salaries and benefits	3,136	-
Maintenance and materials	1,549	-
Other operating costs	922	5
Insurance	848	-
	6,455	5

6. 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 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.

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, 2024 and the year ended December 31, 2023.

As at March 31, 2024 and December 31, 2023, 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, and related party payable approximate their carrying values due to their short-term maturity.

7. 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 normally within 30 days.

LABRADOR - ISLAND LINK OPERATING CORPORATION
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Related parties with which LIL Opco transacts are as follows:

Related Party	Relationship
Nalcor	100% shareholder of LIL Opco
Hydro	Wholly-owned subsidiary of Nalcor
Labrador Transmission Corporation	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 ENL Island Link Incorporated
Muskkrat Falls Corporation	Wholly-owned subsidiary of Nalcor

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

		March 31	December 31
<i>As at (thousands of Canadian dollars)</i>		2024	2023
Trade and other receivables:			
Other related parties	Note 3	932	255
Related party receivable:			
Other related parties	(a)	13,134	11,518
Trade and other payables:			
Parent		2,933	2,677
Other related parties		168	288
Contract liability:			
Other related parties	Note 4	13,673	12,550
Related party payable:			
Other related parties	(b)	69,092	71,725
		Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>		2024	2023
Revenue:			
Other related parties	(c)	112,811	-
Transmission expense:			
Other related parties	(c)	106,226	-
Operating costs:			
Parent		3,525	-
Other related parties		30	-

- (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 remaining construction costs of the LIL assets.
- (c) LIL Opco has revenue from Hydro in relation to the TFA and a transmission expense with LIL LP in relation to the LIL Lease which commenced with commissioning of the LIL on April 14, 2023.

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

8. 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. Revenue allocated to the remaining performance obligation (unsatisfied or partially unsatisfied) related to transmission sales under the TFA as at March 31, 2024 is \$463 million (December 31, 2023 - \$462 million) within one year and \$23,534 million (December 31, 2023 - \$23,648 million) in more than one year.
- (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.

9. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Three months ended	
	2024	2023
Trade and other receivables	(10,311)	3,182
Prepayments	835	-
Trade and other payables	(834)	2
Changes in non-cash working capital balances	(10,310)	3,184