

LABRADOR TRANSMISSION CORPORATION
CONDENSED INTERIM FINANCIAL STATEMENTS
March 31, 2024
(Unaudited)

LABRADOR TRANSMISSION 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		152,880	143,887
Trade and other receivables	3	1,106	4,127
Short-term investments		6,939	6,939
Current portion of contract asset	5	45,834	45,418
Other current assets		969	989
Total current assets		207,728	201,360
Non-current assets			
Property, plant and equipment	4	964,925	967,959
Investments		32,897	32,897
Intangible assets		1,323	1,300
Right-of-use asset		213	213
Contract asset	5	255,125	235,249
Total assets		1,462,211	1,438,978
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	6	12,916	4,939
Current portion of long-term debt	7	6,939	6,939
Current portion of lease liability		1	1
Total current liabilities		19,856	11,879
Non-current liabilities			
Long-term debt	7	872,962	872,966
Lease liability		227	227
Total liabilities		893,045	885,072
Shareholder's equity			
Share capital		90,147	90,147
Shareholder contributions		274,877	274,877
Reserves		(9,463)	(9,621)
Retained earnings		213,605	198,503
Total equity		569,166	553,906
Total liabilities and equity		1,462,211	1,438,978

Commitments and contingencies (Note 13)

Subsequent event (Note 15)

See accompanying notes

LABRADOR TRANSMISSION 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	12	28,514	27,090
Total revenue		28,514	27,090
Operating costs	9	1,092	992
Depreciation and amortization		4,064	13
Net finance expense	10	5,036	5,255
Other expense		158	159
Total expenses		10,350	6,419
Profit for the period		18,164	20,671
Other comprehensive income			
Total items that may or have been reclassified to profit:			
Reclassification adjustments related to:			
Cash flow hedges recognized in profit		158	159
Other comprehensive income for the period		158	159
Total comprehensive income for the period		18,322	20,830

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, 2024		90,147	274,877	(9,621)	198,503	553,906
Profit for the period		-	-	-	18,164	18,164
Other comprehensive income		-	-	158	-	158
Total comprehensive income for the period		-	-	158	18,164	18,322
Dividends	8	-	-	-	(3,062)	(3,062)
Balance at March 31, 2024		90,147	274,877	(9,463)	213,605	569,166
Balance at January 1, 2023		90,147	274,877	(10,256)	134,878	489,646
Profit for the period		-	-	-	20,671	20,671
Other comprehensive income		-	-	159	-	159
Total comprehensive income for the period		-	-	159	20,671	20,830
Dividends	8	-	-	-	(774)	(774)
Balance at March 31, 2023		90,147	274,877	(10,097)	154,775	509,702

See accompanying notes

LABRADOR TRANSMISSION CORPORATION
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		18,164	20,671
Adjustments to reconcile profit to cash provided from operating activities:			
Depreciation and amortization		4,064	13
Reserves amortized to profit		158	159
Finance income	10	(2,377)	(2,221)
Finance expense	10	7,413	7,476
		27,422	26,098
Changes in non-cash working capital balances	14	4,749	(362)
Increase in contract asset		(20,292)	(18,459)
Interest received		2,353	2,187
Interest paid		(54)	(100)
Net cash provided from operating activities		14,178	9,364
Investing activities			
Additions to property, plant and equipment	4	(1,026)	(608)
Additions to intangible assets		(25)	-
Changes in non-cash working capital balances	14	(1,072)	(397)
Net cash used in investing activities		(2,123)	(1,005)
Financing activities			
Decrease in related party loan payable		-	(2,273)
Increase in restricted cash		(8,993)	(5,312)
Dividends	8	(3,062)	(774)
Net cash used in financing activities		(12,055)	(8,359)
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. 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, with the Labrador-Island Link, 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. 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 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 May 15, 2024.

3. TRADE AND OTHER RECEIVABLES

<i>As at (thousands of Canadian dollars)</i>	March 31 2024	December 31 2023
Interest receivable	813	795
Due from related parties	255	60
HST receivable	38	22
Litigation close-out	-	3,250
	1,106	4,127

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

4. 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	882	11,934	977,254	990,070
Additions	-	-	1,654	1,654
Transfers	972,236	5,218	(977,454)	-
Balance at December 31, 2023	973,118	17,152	1,454	991,724
Additions	-	-	1,026	1,026
Balance at March 31, 2024	973,118	17,152	2,480	992,750
Depreciation				
Balance at January 1, 2023	19	11,552	-	11,571
Depreciation	11,974	220	-	12,194
Balance at December 31, 2023	11,993	11,772	-	23,765
Depreciation	3,989	71	-	4,060
Balance at March 31, 2024	15,982	11,843	-	27,825
Carrying value				
Balance at January 1, 2023	863	382	977,254	978,499
Balance at December 31, 2023	961,125	5,380	1,454	967,959
Balance at March 31, 2024	957,136	5,309	2,480	964,925

5. CONTRACT ASSET

<i>As at (thousands of Canadian dollars)</i>	March 31 2024	December 31 2023
Contract asset, beginning of the period	280,667	207,325
Revenue recognized	28,514	114,727
Payments	(8,222)	(41,385)
Contract asset, end of the period	300,959	280,667
Less: current portion	(45,834)	(45,418)
	255,125	235,249

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

<i>As at (thousands of Canadian dollars)</i>	March 31 2024	December 31 2023
Accrued interest	9,812	2,453
Trade payables and accruals	2,262	1,241
Due to related parties	842	1,245
	12,916	4,939

LABRADOR TRANSMISSION CORPORATION
NOTES TO THE CONDENSED 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	March 31 2024	December 31 2023
Tranche A	107,713	3.63	2013	2029	107,726	107,726
Tranche B	111,856	3.83	2013	2037	111,866	111,866
Tranche C	211,283	3.86	2013	2048	211,313	211,313
Tranche 8-10	10,437	1.62-1.75	2017	2024-2025	10,437	10,438
Tranche 11-20	37,166	1.84-2.37	2017	2025-2030	37,170	37,171
Tranche 21-30	41,858	2.41-2.64	2017	2030-2035	41,871	41,871
Tranche 31-40	47,756	2.66-2.80	2017	2035-2040	47,791	47,792
Tranche 41-50	54,857	2.81-2.86	2017	2040-2045	54,902	54,902
Tranche 51-60	63,150	2.84-2.86	2017	2045-2050	63,220	63,221
Tranche 61-64	27,848	2.85	2017	2050-2052	27,893	27,893
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	879,636				879,901	879,905
Less: maturities of debt within one year					(6,939)	(6,939)
					872,962	872,966

8. SHAREHOLDER'S EQUITY

Dividends

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Three months ended	
	2024	2023
Declared and paid during the period		
Preferred dividend for current period (3% coupon rate)	674	667
Common dividend for current period	2,388	107
	3,062	774

9. OPERATING COSTS

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Three months ended	
	2024	2023
Salaries and benefits	598	566
Other operating costs	347	321
Maintenance and materials	147	105
	1,092	992

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

10. NET FINANCE EXPENSE

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Three months ended	
	2024	2023
Finance income		
Interest on restricted cash	2,001	1,786
Interest on investments	372	431
Other interest	4	4
	2,377	2,221
Finance expense		
Interest and fees on long-term debt	7,359	7,386
Other interest	54	90
	7,413	7,476
Net finance expense	5,036	5,255

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 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.

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 year ended December 31, 2023.

As at March 31, 2024 and December 31, 2023 the Company did not have any Level 3 instruments.

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

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		March 31, 2024		December 31, 2023	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Investments, including short-term	2	39,836	37,994	39,836	39,022
Financial liabilities					
Long-term debt, including amount due within one year	2	879,901	788,932	879,905	821,733

The fair values of restricted cash, trade and other receivables 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.

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 normally within 30 days.

Related parties with which Labrador Transco transacts are as follows:

Related Party	Relationship
Nalcor	100% shareholder of Labrador Transco
Muskkrat Falls	Wholly-owned subsidiary of Nalcor
Lower Churchill Management Corporation	Wholly-owned subsidiary of Nalcor
Labrador-Island Link Operating Corporation	Wholly-owned subsidiary of Nalcor
Labrador-Island Link Limited Partnership	Limited partnership between Labrador-Island Link Holding Corporation and ENL Island Link Incorporated

LABRADOR TRANSMISSION 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:

		March 31	December 31
		2024	2023
<i>As at (thousands of Canadian dollars)</i>			
Trade and other receivables:			
Other related parties	Note 3	255	60
Contract asset (including current portion):			
Other related parties	Note 5	300,959	280,667
Trade and other payables:			
Parent	Note 6	743	1,171
Other related parties		99	74
		Three months ended	
		2024	2023
<i>For the period ended March 31 (thousands of Canadian dollars)</i>			
Revenue:			
Other related parties	(a)	28,514	27,090
Operating costs:			
Parent		787	632
Other related parties		30	-

(a) Labrador Transco has revenue from Muskrat Falls in relation to the GIA.

13. COMMITMENTS AND CONTINGENCIES

- (a) Labrador Transco has entered into the GIA with Muskrat Falls and Hydro, 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 March 31, 2024 is \$116 million (December 31, 2023 - \$116 million) within one year and \$5,633 million (December 31, 2023 - \$5,662 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 \$10.0 million as at March 31, 2024 (December 31, 2023 - \$1.5 million).

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

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	3,039	(82)
Inventories	(69)	(109)
Prepayments	89	85
Trade and other payables	618	(653)
Changes in non-cash working capital balances	3,677	(759)
Related to:		
Operating activities	4,749	(362)
Investing activities	(1,072)	(397)
	3,677	(759)

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 Labrador Transco is currently under investigation.