

LABRADOR - ISLAND LINK HOLDING CORPORATION
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
September 30, 2020
(Unaudited)

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

<i>As at (thousands of Canadian dollars)</i>	Notes	September 30 2020	December 31 2019
ASSETS			
Current assets			
Cash		4	4
Restricted cash		420,057	529,389
Trade and other receivables		2,038	6,088
Inventories		248	-
Advances		488	552
Prepayments		27	1,924
Total current assets		422,862	537,957
Non-current assets			
Property, plant and equipment	4	4,512,998	4,341,746
Intangible assets	5	35,414	35,221
Right-of-use assets		2,555	2,650
Total assets		4,973,829	4,917,574
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		65,162	47,356
Current portion of long-term debt	6	21,000	10,500
Current portion of lease liabilities		109	107
Total current liabilities		86,271	57,963
Non-current liabilities			
Long-term debt	6	3,430,697	3,441,253
Deferred revenue		52,300	52,300
Class B limited partnership units	7	614,895	578,368
Lease liabilities		2,515	2,595
Contributions		10	10
Total liabilities		4,186,688	4,132,489
Shareholder's equity			
Share capital		1	1
Shareholder contributions		779,994	779,979
Retained earnings		7,146	5,105
Total equity		787,141	785,085
Total liabilities and equity		4,973,829	4,917,574

Commitments and contingencies (Note 13)

See accompanying notes

LABRADOR - ISLAND LINK HOLDING CORPORATION
CONSOLIDATED 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	
		2020	2019	2020	2019
Net finance income	8	628	1,518	3,274	4,480
Revenue		628	1,518	3,274	4,480
Operating costs	9	389	949	1,195	1,854
Other (income) expense	10	(2)	(39)	38	(116)
Expenses		387	910	1,233	1,738
Total profit and comprehensive income for the period		241	608	2,041	2,742

See accompanying notes

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

<i>(thousands of Canadian dollars)</i>	Share Capital	Shareholder Contributions	Retained Earnings	Total
Balance at January 1, 2020	1	779,979	5,105	785,085
Total comprehensive income for the period	-	-	2,041	2,041
Shareholder contributions	-	15	-	15
Balance at September 30, 2020	1	779,994	7,146	787,141
Balance at January 1, 2019	1	665,245	1,306	666,552
Total comprehensive income for the period	-	-	2,742	2,742
Shareholder contributions	-	19	-	19
Balance at September 30, 2019	1	665,264	4,048	669,313

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

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Nine months ended	
		2020	2019	2020	2019
Operating activities					
Profit for the period		241	608	2,041	2,742
Adjustments to reconcile profit to cash provided from (used in) operating activities:					
Finance income	8	(661)	(2,568)	(3,851)	(8,790)
Finance expense	8	33	1,050	577	4,310
		(387)	(910)	(1,233)	(1,738)
Increase in prepayments		-	-	-	(367)
Changes in non-cash working capital balances	14	19	21	25	(13)
Interest received		649	2,587	4,448	8,784
Interest paid		(2)	(3)	(64,786)	(64,786)
Net cash provided from (used in) operating activities		279	1,695	(61,546)	(58,120)
Investing activities					
Additions to property, plant and equipment		(16,408)	(15,134)	(39,922)	(78,273)
Additions to intangible assets	5	(83)	(180)	(278)	(376)
Change in advances		59	38	64	234
Redemption of investments		-	-	-	105,523
Changes in non-cash working capital balances	14	1,040	(10,044)	(7,524)	(19,604)
Net cash (used in) provided from investing activities		(15,392)	(25,320)	(47,660)	7,504
Financing activities					
Change in restricted cash		15,157	23,662	109,332	50,722
Increase in shareholder contributions		3	5	15	19
Repayment of lease liabilities		(47)	(42)	(141)	(125)
Net cash provided from financing activities		15,113	23,625	109,206	50,616
Net increase (decrease) in cash		-	-	-	-
Cash, beginning of the period		4	4	4	4
Cash, end of the period		5	4	4	4

See accompanying notes

LABRADOR - ISLAND LINK HOLDING CORPORATION
NOTES TO 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 Nalcor Energy (Nalcor) and is a limited partner in the Labrador-Island Link Limited Partnership (the Partnership or LIL LP). LIL Holdco's head office is located at 500 Columbus Drive, St. John's, Newfoundland and Labrador, A1B 0C9, Canada.

LIL Holdco, together with the Labrador-Island Link General Partner Corporation (LIL GP or the General Partner, represent Nalcor's interests in the Partnership. Emera Newfoundland and Labrador Island Link Inc. (Emera NL) is the remaining limited partner of the Partnership, and when combined with Nalcor's interests, represents 100% of the Partnership. The Partnership is expected to terminate on December 31, 2081, unless terminated earlier or extended in accordance with the Labrador-Island Link Limited Partnership Agreement (the Partnership Agreement or LIL LPA).

The Partnership was formed to carry on the business of designing, engineering, constructing, commissioning, owning, financing, operating and maintaining the assets and property constituting the Labrador-Island Link (LIL). The Partnership 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), both of which are wholly-owned subsidiaries of Nalcor. These agreements effectively provide Hydro with transmission services over the LIL. LIL Opco will maintain and operate the LIL on behalf of the Partnership.

2. SIGNIFICANT 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, 2019.

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 November 13, 2020.

2.2 Basis of Consolidation

These condensed consolidated interim financial statements include the financial statements of LIL Holdco, the Partnership and the LIL Construction Project Trust (the IT). Intercompany transactions and balances have been eliminated upon consolidation.

2.3 Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes expenditures incurred in acquiring inventories and bringing them to their existing condition and location. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Significant accounting judgments, estimates and assumptions used in the preparation of the condensed consolidated interim financial statements are described in the Company's annual audited consolidated financial statements for the year ended December 31, 2019.

The World Health Organization declared the Coronavirus disease (COVID-19) outbreak a Public Health Emergency of International Concern on January 30, 2020 and a pandemic on March 11, 2020. In order to mitigate the spread of COVID-19 there have been global restrictions on travel, quarantines, self-isolation, social and physical distancing and forced closure of certain types of public places and non-essential businesses. These actions have caused lost time and a reduced workforce which has and continues to impact construction cost and schedule.

COVID-19 is an evolving situation that may have widespread implications for the Company environment, operations and financial results. Management cannot reasonably estimate the duration and magnitude of the COVID-19 impact on the economy and future effect on the Company at this time.

4. PROPERTY, PLANT AND EQUIPMENT

<i>(thousands of Canadian dollars)</i>	Project support assets	Construction in Progress	Other	Total
Cost				
Balance at January 1, 2019	6,070	4,077,349	-	4,083,419
Additions	-	261,036	2,535	263,571
Balance at December 31, 2019	6,070	4,338,385	2,535	4,346,990
Additions	-	172,154	331	172,485
Balance at September 30, 2020	6,070	4,510,539	2,866	4,519,475
Depreciation				
Balance at January 1, 2019	3,261	-	-	3,261
Depreciation	1,983	-	-	1,983
Balance at December 31, 2019	5,244	-	-	5,244
Depreciation	826	-	407	1,233
Balance at September 30, 2020	6,070	-	407	6,477
Carrying value				
Balance at January 1, 2019	2,809	4,077,349	-	4,080,158
Balance at December 31, 2019	826	4,338,385	2,535	4,341,746
Balance at September 30, 2020	-	4,510,539	2,459	4,512,998

Capitalized Borrowing Costs

The construction of the LIL is being financed, in part, through the issuance of long-term debt. For the period ended September 30, 2020, \$92.7 million (December 31, 2019 - \$119.4 million) of borrowing costs were capitalized. The Company also capitalized borrowing costs associated with the Class B units of \$36.5 million (December 31, 2019 - \$45.3 million) as non-cash additions to property, plant and equipment.

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

5. INTANGIBLE ASSETS

<i>(thousands of Canadian dollars)</i>	Computer Software	Assets Under Development	Total
Cost			
Balance at January 1, 2019	2,242	34,423	36,665
Additions	109	734	843
Balance at December 31, 2019	2,351	35,157	37,508
Additions	81	197	278
Balance at September 30, 2020	2,432	35,354	37,786
Amortization			
Balance at January 1, 2019	2,189	-	2,189
Amortization	98	-	98
Balance at December 31, 2019	2,287	-	2,287
Amortization	85	-	85
Balance at September 30, 2020	2,372	-	2,372
Carrying value			
Balance at January 1, 2019	53	34,423	34,476
Balance at December 31, 2019	64	35,157	35,221
Balance at September 30, 2020	60	35,354	35,414

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	September 30 2020	December 31 2019
Tranche A	725,000	3.76	2013	2033	725,198	725,210
Tranche B	600,000	3.86	2013	2045	600,090	600,093
Tranche C	1,075,000	3.85	2013	2053	1,075,187	1,075,192
Tranche 1-10	105,000	1.14-1.75	2017	2020-2025	105,011	105,014
Tranche 11-20	105,000	1.84-2.37	2017	2025-2030	105,023	105,025
Tranche 21-30	105,000	2.41-2.64	2017	2030-2035	105,046	105,049
Tranche 31-40	105,000	2.66-2.80	2017	2035-2040	105,097	105,101
Tranche 41-50	105,000	2.81-2.86	2017	2040-2045	105,103	105,106
Tranche 51-60	105,000	2.84-2.86	2017	2045-2050	105,131	105,135
Tranche 61-70	105,000	2.85	2017	2050-2055	105,192	105,196
Tranche 71-74	315,000	2.85	2017	2055-2057	315,619	315,632
Total	3,450,000				3,451,697	3,451,753
Less: maturities of debt within one year					(21,000)	(10,500)
					3,430,697	3,441,253

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

7. LIMITED PARTNERSHIP UNITS

Class B Limited Partnership Units

<i>As at (thousands of Canadian dollars)</i>	September 30		December 31	
	Units	2020	Units	2019
Class B limited partnership units, beginning of period	25	578,368	25	533,058
Accrued interest	-	36,527	-	45,310
Class B limited partnership units, end of period	25	614,895	25	578,368

8. NET FINANCE INCOME

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2020	2019	2020	2019
Finance income				
Interest on investments	-	-	-	207
Other interest	661	2,568	3,851	8,583
	661	2,568	3,851	8,790
Finance expense				
Interest and fees on long-term debt	31,079	31,080	93,232	93,233
Interest on Class B limited partnership units	12,515	11,532	36,527	33,539
Interest on lease liabilities	21	22	64	66
Bank charges	2	2	7	7
	43,617	42,636	129,830	126,845
Interest capitalized during construction	(43,584)	(41,586)	(129,253)	(122,535)
	33	1,050	577	4,310
Net finance income	628	1,518	3,274	4,480

9. OPERATING COSTS

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2020	2019	2020	2019
Salaries and benefits	555	611	1,292	1,189
Professional services	31	24	81	118
Training	62	233	72	409
Travel and transportation	15	20	27	20
Maintenance and materials	3	11	14	11
Donations and community involvement	-	-	-	8
Cost recoveries and other	(277)	50	(291)	99
	389	949	1,195	1,854

10. OTHER (INCOME) EXPENSE

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2020	2019	2020	2019
Realized foreign exchange (gain) loss	(1)	(7)	6	(6)
Unrealized foreign exchange (gain) loss	(1)	(32)	32	(110)
Other (income) expense	(2)	(39)	38	(116)

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

11. FINANCIAL INSTRUMENTS

Fair Value

The estimated fair values of financial instruments as at September 30, 2020 and December 31, 2019 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:

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, 2020 and the year ended December 31, 2019.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		September 30, 2020		December 31, 2019	
<i>As at (thousands of Canadian dollars)</i>					
Financial liabilities					
Long-term debt including amount due within one year	2	3,451,697	4,600,228	3,451,753	4,178,940
Class B limited partnership units	3	614,895	614,895	578,368	578,368

The fair values of cash, restricted cash, trade and other receivables, advances 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, 2019 - 8.5%) is defined in the Newfoundland and Labrador Development Agreement as Emera NL's 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.

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

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	(29,203)	28,030

12. RELATED PARTY TRANSACTIONS

LIL Holdco enters into various transactions with its parent and other affiliates. 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. Related parties with which LIL Holdco transacts are as follows:

Related Party	Relationship
Nalcor	100% shareholder of LIL Holdco
Hydro	Wholly-owned subsidiary of Nalcor
Emera NL	Limited Partner holding 25 Class B limited partnership units of LIL LP
Labrador Transmission Corporation (Labrador Transco)	Wholly-owned subsidiary of Nalcor
LIL GP	Wholly-owned subsidiary of Nalcor, general partner of LIL LP
LIL Opco	Wholly-owned subsidiary of Nalcor
Lower Churchill Management Corporation (LCMC)	Wholly-owned subsidiary of Nalcor
Musktrat Falls Corporation (Musktrat Falls)	Wholly-owned subsidiary of Nalcor

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

- (a) As at September 30, 2020, LIL Holdco has related party payables totaling \$7.5 million (December 31, 2019 - \$11.9 million) with Nalcor, LCMC and Musktrat Falls. These payables consist of various intercompany operating and construction costs. As at September 30, 2020, LIL Holdco has related party receivables totaling \$0.6 million (December 31, 2019 - \$nil) with Labrador Transco.

13. COMMITMENTS AND CONTINGENCIES

- (a) The Partnership is required to make mandatory distributions in accordance with the Partnership Agreement. The amount of periodic distributions will be determined by the General Partner and will commence following commissioning of the LIL.
- (b) As part of the LIL PFA, the Partnership has pledged its current and future assets as security to the Collateral Agent. Under the terms and conditions of the IT PFA, the Partnership has also provided a guarantee of the IT's payment obligations to the Collateral Agent for the benefit of the LIL Funding Trust. The Company has pledged the escrow account, where the pre-funded equity contribution has been deposited, as security to the Collateral Agent.
- (c) Under the terms and conditions of the Partnership Agreement, LIL Holdco has committed to fund its share of the capital expenditures of the LIL.
- (d) LIL LP has entered into the LIL Lease and the TFA with LIL Opco and Hydro, whereby LIL LP has committed to design and construct the LIL and LIL Opco will operate and maintain the LIL at commissioning and provide such other services as agreed to ensure safe and reliable transmission of electricity. During 2018, LIL LP also entered into the Interim Transmission Funding Agreement with Hydro, whereby LIL LP will operate and maintain the LIL during the commissioning period and provide such services as agreed to ensure safe and reliable transmission of electricity.

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

- (e) LIL LP is subject to legal proceedings in the normal course of business. Although the outcome of such actions cannot be predicted with certainty, Management currently believes LIL LP's exposure to such claims and litigation, to the extent not covered by insurance policies or otherwise provided for will not materially affect its financial position.
- (f) Outstanding commitments for capital projects total approximately \$22.0 million as at September 30, 2020 (December 31, 2019 - \$11.3 million).

14. SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended		Nine months ended	
<i>For the period ended September 30 (thousands of Canadian dollars)</i>	2020	2019	2020	2019
Trade and other receivables	325	(6,298)	3,396	(11,069)
Inventories	(76)	-	(248)	-
Trade and other payables	810	(3,725)	(10,647)	(8,548)
Changes in non-cash working capital balances	1,059	(10,023)	(7,499)	(19,617)
Related to:				
Operating activities	19	21	25	(13)
Investing activities	1,040	(10,044)	(7,524)	(19,604)
	1,059	(10,023)	(7,499)	(19,617)