

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

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

**September 30**    December 31  
**2020**                    2019

*As at (thousands of Canadian dollars)*

**ASSETS**

Current assets

Restricted cash	2,380	-
Short-term investments	11	11
Other receivables	1	2,372
Total current assets	2,392	2,383

Non-current assets

Prepaid rent	52,300	52,300
Total assets	54,692	54,683

**LIABILITIES AND EQUITY**

Current liabilities

Other payables	171	152
Total liabilities	171	152

Shareholder's equity

Share capital	1	1
Shareholder contributions	54,609	54,609
Deficit	(89)	(79)
Total equity	54,521	54,531
Total liabilities and equity	54,692	54,683

Commitments and contingencies (Note 7)

*See accompanying notes*

**LABRADOR - ISLAND LINK OPERATING CORPORATION**  
**STATEMENT OF (LOSS) PROFIT AND COMPREHENSIVE (LOSS) INCOME**  
(Unaudited)

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Notes	<b>Three months ended</b>		<b>Nine months ended</b>	
		<b>2020</b>	2019	<b>2020</b>	2019
Finance income		<b>2</b>	9	<b>9</b>	21
Operating costs	4	<b>6</b>	5	<b>19</b>	18
<b>Total (loss) profit and comprehensive (loss) income for the period</b>		<b>(4)</b>	4	<b>(10)</b>	3

*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
<b>Balance at January 1, 2020</b>	<b>1</b>	<b>54,609</b>	<b>(79)</b>	<b>54,531</b>
<b>Total loss and comprehensive loss for the period</b>	<b>-</b>	<b>-</b>	<b>(10)</b>	<b>(10)</b>
<b>Balance at September 30, 2020</b>	<b>1</b>	<b>54,609</b>	<b>(89)</b>	<b>54,521</b>
Balance at January 1, 2019	1	38,206	(83)	38,124
Total income and comprehensive income for the period	-	-	3	3
Balance at September 30, 2019	1	38,206	(80)	38,127

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

	<b>Three months ended</b>		<b>Nine months ended</b>	
<i>For the period ended September 30 (thousands of Canadian dollars)</i>	<b>2020</b>	2019	<b>2020</b>	2019
Operating activities				
(Loss) profit for the period	<b>(4)</b>	4	<b>(10)</b>	3
Adjustments to reconcile (loss) profit to cash provided from operating activities:				
Finance income	<b>(2)</b>	(9)	<b>(9)</b>	(21)
	<b>(6)</b>	(5)	<b>(19)</b>	(18)
Changes in non-cash working capital balances:				
Change in other receivables	<b>(1)</b>	1	<b>2,370</b>	1,740
Change in other payables	<b>7</b>	-	<b>19</b>	-
Change in long-term payables	-	6	-	18
Interest received	<b>3</b>	8	<b>10</b>	19
<b>Net cash provided from operating activities</b>	<b>3</b>	10	<b>2,380</b>	1,759
Financing activity				
Change in restricted cash	<b>(3)</b>	(10)	<b>(2,380)</b>	(1,759)
<b>Net cash used in financing activity</b>	<b>(3)</b>	(10)	<b>(2,380)</b>	(1,759)
Net increase (decrease) in cash	-	-	-	-
Cash, beginning of the period	-	-	-	-
<b>Cash, end of the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

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**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 0M5, 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 (LTA) 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 will be the transmission provider for purposes of offering transmission service to Hydro over the LIL during the term of the TFA.

**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, 2019.

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 financial statements on November 13, 2020.

**3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the condensed 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 interim financial statements are described in the Company's annual audited 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.

COVID-19 is an evolving situation that may have widespread implications for the Company's environment, operations and financial results. For the period ended September 30, 2020, COVID-19 did not have a significant impact on the Company's results of operations, financial position or cash flow. At this time Management cannot reasonably estimate the duration and magnitude of the COVID-19 impact on the economy and future effect on the Company.

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

**4. OPERATING COSTS**

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>2020</b>	2019	<b>2020</b>	2019
Professional services	<b>3</b>	3	<b>9</b>	9
Cost recoveries	<b>2</b>	2	<b>7</b>	7
Salaries and benefits	<b>1</b>	-	<b>2</b>	1
Other operating costs	-	-	<b>1</b>	1
	<b>6</b>	5	<b>19</b>	18

**5. 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 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 September 30, 2020 and the year ended December 31, 2019.

As at September 30, 2020 and December 31, 2019, the Company did not have any Level 2 or Level 3 instruments. The fair values of restricted cash, short-term investments, other receivables and other payables approximate their carrying values due to their short-term maturity.

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

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**6. RELATED PARTY TRANSACTIONS**

LIL Opco 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 Opco transacts are as follows:

Related Party	Relationship
Nalcor	100% shareholder of LIL Opco
Hydro	Wholly-owned subsidiary of Nalcor
Lower Churchill Management Corporation (LCMC)	Wholly-owned subsidiary of Nalcor
LIL LP	Limited partnership between Labrador-Island Link Holding Corporation and Emera Newfoundland and Labrador Island Link Inc.
LIL Construction Project Trust	Party to the LIL Project Finance Agreement (LIL PFA) and the IT Project Finance Agreement

Outstanding balances due to or from related parties are non-interest bearing with no set terms of repayment, unless otherwise stated.

- (a) As at September 30, 2020, LIL Opco has related party payables totaling \$0.2 million (December 31, 2019 - \$0.1 million) with Nalcor and LCMC. These payables consist of various intercompany administrative expenses.

**7. 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 will make rent payments to LIL LP as consideration for the 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 once the LIL is commissioned.
- (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 PFA, dated November 30, 2013. 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 currently believes LIL Opco'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.