

**LABRADOR TRANSMISSION CORPORATION**  
**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**September 30, 2020**  
**(Unaudited)**

**LABRADOR TRANSMISSION CORPORATION**  
**STATEMENT OF FINANCIAL POSITION**  
(Unaudited)

<i>As at (thousands of Canadian dollars)</i>	Notes	September 30 2020	December 31 2019
<b>ASSETS</b>			
Current assets			
Restricted cash		35,994	70,109
Trade and other receivables		28	177
Inventories		16	-
Prepayments		9	472
<b>Total current assets</b>		<b>36,047</b>	<b>70,758</b>
Non-current assets			
Property, plant and equipment	4	975,662	977,572
Intangible assets		489	496
Right-of-use assets		229	229
<b>Total assets</b>		<b>1,012,427</b>	<b>1,049,055</b>
<b>LIABILITIES AND EQUITY</b>			
Current liabilities			
Trade and other payables		11,630	5,852
Current portion of long-term debt	5	6,599	3,385
Current portion of lease liabilities		1	1
<b>Total current liabilities</b>		<b>18,230</b>	<b>9,238</b>
Non-current liabilities			
Long-term debt	5	731,145	753,463
Lease liabilities		232	232
<b>Total liabilities</b>		<b>749,607</b>	<b>762,933</b>
Shareholder's equity			
Share capital		1	1
Shareholder contributions		316,816	316,816
Reserves		(11,706)	(12,195)
Deficit		(42,291)	(18,500)
<b>Total equity</b>		<b>262,820</b>	<b>286,122</b>
<b>Total liabilities and equity</b>		<b>1,012,427</b>	<b>1,049,055</b>

Commitments and contingencies (Note 10)

*See accompanying notes*

**LABRADOR TRANSMISSION CORPORATION**  
**STATEMENT OF LOSS AND COMPREHENSIVE LOSS**  
(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
Operating costs	6	<b>1,459</b>	2,308	<b>4,038</b>	2,490
Net finance expense	7	<b>6,371</b>	6,233	<b>19,188</b>	6,233
Depreciation		<b>11</b>	-	<b>76</b>	-
Other expense (income)		<b>163</b>	(70)	<b>489</b>	(70)
<b>Loss for the period</b>		<b>(8,004)</b>	(8,471)	<b>(23,791)</b>	(8,653)
Other comprehensive income					
Total items that may or have been reclassified to profit or loss:					
Reclassification adjustments related to:					
Cash flow hedges recognized in profit or loss		<b>163</b>	225	<b>489</b>	489
Other comprehensive income for the period		<b>163</b>	225	<b>489</b>	489
<b>Total comprehensive loss for the period</b>		<b>(7,841)</b>	(8,246)	<b>(23,302)</b>	(8,164)

*See accompanying notes*

**LABRADOR TRANSMISSION CORPORATION**  
**STATEMENT OF CHANGES IN EQUITY**  
(Unaudited)

<i>(thousands of Canadian dollars)</i>	Notes	Share Capital	Shareholder Contributions	Reserves	Deficit	Total
<b>Balance at January 1, 2020</b>		<b>1</b>	<b>316,816</b>	<b>(12,195)</b>	<b>(18,500)</b>	<b>286,122</b>
Loss for the period		-	-	-	<b>(23,791)</b>	<b>(23,791)</b>
Other comprehensive income		-	-	<b>489</b>	-	<b>489</b>
<b>Total comprehensive loss for the period</b>		-	-	<b>489</b>	<b>(23,791)</b>	<b>(23,302)</b>
<b>Balance at September 30, 2020</b>		<b>1</b>	<b>316,816</b>	<b>(11,706)</b>	<b>(42,291)</b>	<b>262,820</b>
Balance at January 1, 2019		1	305,367	(12,848)	(1,771)	290,749
Loss for the period		-	-	-	(8,653)	(8,653)
Other comprehensive income		-	-	489	-	489
<b>Total comprehensive loss for the period</b>		-	-	<b>489</b>	<b>(8,653)</b>	<b>(8,164)</b>
Shareholder contributions	9	-	11,449	-	-	11,449
<b>Balance at September 30, 2019</b>		<b>1</b>	<b>316,816</b>	<b>(12,359)</b>	<b>(10,424)</b>	<b>294,034</b>

See accompanying notes

**LABRADOR TRANSMISSION CORPORATION**  
**STATEMENT OF CASH FLOWS**  
**(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
<b>Operating activities</b>					
Loss for the period		<b>(8,004)</b>	(8,471)	<b>(23,791)</b>	(8,653)
Adjustments to reconcile loss to cash used in operating activities:					
Depreciation		<b>4</b>	-	<b>22</b>	-
Gain on disposal of property, plant and equipment		-	(233)	-	(233)
Reserves amortized to profit or loss		<b>163</b>	225	<b>489</b>	489
Finance income	7	<b>(53)</b>	(358)	<b>57</b>	(1,261)
Finance expense	7	<b>6,424</b>	6,591	<b>19,131</b>	7,494
		<b>(1,466)</b>	(2,246)	<b>(4,092)</b>	(2,164)
Increase in prepayments		-	-	-	(91)
Changes in non-cash working capital balances	11	<b>(598)</b>	18	<b>116</b>	9
Interest received		<b>31</b>	406	<b>3,680</b>	1,234
Interest paid		-	(1)	<b>(13,938)</b>	(13,967)
<b>Net cash used in operating activities</b>		<b>(2,033)</b>	(1,823)	<b>(14,234)</b>	(14,979)
<b>Investing activities</b>					
Additions to property, plant and equipment		<b>(725)</b>	(740)	<b>(678)</b>	(12,408)
Additions to intangible assets		<b>(2)</b>	(4)	<b>(11)</b>	(24)
Redemption of investments		-	-	-	35,692
Changes in non-cash working capital balances	11	<b>36,975</b>	(13,192)	<b>(100)</b>	(4,190)
Proceeds on disposal of property, plant and equipment		-	233	-	233
<b>Net cash provided from (used in) investing activities</b>		<b>36,248</b>	(13,703)	<b>(789)</b>	19,303
<b>Financing activities</b>					
Change in long-term debt		-	-	<b>(19,092)</b>	-
Change in restricted cash		<b>(34,215)</b>	15,526	<b>34,115</b>	(15,773)
Increase in shareholder contributions	9	-	-	-	11,449
<b>Net cash (used in) provided from financing activities</b>		<b>(34,215)</b>	15,526	<b>15,023</b>	(4,324)
Net increase (decrease) in cash		-	-	-	-
Cash, beginning of the period		-	-	-	-
Cash, end of the period		-	-	-	-

*See accompanying notes*

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

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**1. DESCRIPTION OF BUSINESS**

Labrador Transmission Corporation (Labrador Transco or the Company) was incorporated on November 13, 2013 under the laws 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 0M6, Canada.

Labrador Transco was formed to design, construct, finance, operate and maintain the Labrador Transmission Assets (LTA), which includes two 315-kV High Voltage alternating current transmission lines connecting the Muskrat Falls hydroelectric facility, the Churchill Falls (Labrador) Corporation (Churchill Falls) hydroelectric generating facility, the Labrador-Island Link (LIL) and certain other portions of the transmission system in Labrador.

Newfoundland and Labrador Hydro (Hydro), Muskrat Falls Corporation (Muskrat Falls), and Labrador Transco have entered into the Generator Interconnection Agreement (GIA), which governs the development and operation of 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. SIGNIFICANT ACCOUNTING POLICIES**

**2.1 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 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 financial statements on November 13, 2020.

**2.2 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.

**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.

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

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's 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
<b>Cost</b>				
Balance at January 1, 2019	16,906	949,941	-	966,847
Additions	16	26,864	267	27,147
Disposals	(5,435)	-	-	(5,435)
Balance at December 31, 2019	11,487	976,805	267	988,559
<b>Additions</b>	-	<b>1,657</b>	<b>2</b>	<b>1,659</b>
<b>Other adjustments</b>	-	<b>(3,047)</b>	-	<b>(3,047)</b>
<b>Balance at September 30, 2020</b>	<b>11,487</b>	<b>975,415</b>	<b>269</b>	<b>987,171</b>
<b>Depreciation</b>				
Balance at January 1, 2019	15,208	-	-	15,208
Depreciation	1,214	-	-	1,214
Disposals	(5,435)	-	-	(5,435)
Balance at December 31, 2019	10,987	-	-	10,987
<b>Depreciation</b>	<b>500</b>	-	<b>22</b>	<b>522</b>
<b>Balance at September 30, 2020</b>	<b>11,487</b>	-	<b>22</b>	<b>11,509</b>
<b>Carrying value</b>				
Balance at January 1, 2019	1,698	949,941	-	951,639
Balance at December 31, 2019	500	976,805	267	977,572
<b>Balance at September 30, 2020</b>	<b>-</b>	<b>975,415</b>	<b>247</b>	<b>975,662</b>

Capitalized Borrowing Costs

The construction of the LTA is being financed through the issuance of long-term debt and contributed capital. For the period ended September 30, 2020, \$(3.0 million) (December 31, 2019 - \$12.3 million) of borrowing costs were capitalized.

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

**5. 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	107,713	3.63	2013	2029	<b>107,735</b>	110,524
Tranche B	111,856	3.83	2013	2037	<b>111,868</b>	114,764
Tranche C	211,283	3.86	2013	2048	<b>211,317</b>	216,786
Tranche 1-10	33,932	1.14-1.75	2017	2020-2025	<b>33,935</b>	34,815
Tranche 11-20	37,166	1.84-2.37	2017	2025-2030	<b>37,174</b>	38,137
Tranche 21-30	41,858	2.41-2.64	2017	2030-2035	<b>41,876</b>	42,961
Tranche 31-40	47,756	2.66-2.80	2017	2035-2040	<b>47,800</b>	49,039
Tranche 41-50	54,857	2.81-2.86	2017	2040-2045	<b>54,910</b>	56,333
Tranche 51-60	63,150	2.84-2.86	2017	2045-2050	<b>63,231</b>	64,868
Tranche 61-64	27,849	2.85	2017	2050-2052	<b>27,898</b>	28,621
<b>Total</b>	<b>737,420</b>				<b>737,744</b>	756,848
Less: maturities of debt within one year					<b>(6,599)</b>	(3,385)
					<b>731,145</b>	753,463

Labrador Transco and Muskrat Falls are jointly and severally liable for the full amount of the debt. Labrador Transco recognizes its ratable share, which is based on its cumulative portion of actual debt drawn for the construction of the LTA. As at September 30, 2020, Labrador Transco's cumulative portion of actual debt drawn was 16.57% (December 31, 2019 - 17.00%).

**6. 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	<b>689</b>	1,152	<b>2,168</b>	1,240
Maintenance and materials	<b>370</b>	296	<b>767</b>	296
Professional services	<b>238</b>	566	<b>579</b>	615
Cost recoveries and other	<b>99</b>	110	<b>346</b>	126
Travel and transportation	<b>51</b>	94	<b>123</b>	94
Rental expense	<b>6</b>	-	<b>30</b>	-
Training	<b>6</b>	90	<b>25</b>	119
	<b>1,459</b>	2,308	<b>4,038</b>	2,490

As of July 1, 2019, substantially all construction and testing activities related to the LTA were complete. As a result, significant project costs are no longer eligible for capitalization.



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

**7. NET FINANCE EXPENSE**

<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
Finance income				
Interest on investments	-	-	<b>(275)</b>	100
Other interest	<b>53</b>	358	<b>218</b>	1,161
	<b>53</b>	358	<b>(57)</b>	1,261
Finance expense				
Interest and fees on long-term debt	<b>6,424</b>	6,590	<b>16,083</b>	19,769
Bank fees and other interest expense	-	1	<b>1</b>	2
	<b>6,424</b>	6,591	<b>16,084</b>	19,771
Interest capitalized during construction	-	-	<b>3,047</b>	(12,277)
	<b>6,424</b>	6,591	<b>19,131</b>	7,494
Net finance expense	<b>6,371</b>	6,233	<b>19,188</b>	6,233

As of July 1, 2019, substantially all construction and testing activities related to the LTA were complete. As a result, borrowing costs are no longer eligible for capitalization.

Due to the MF/LTA Project Finance Agreement (MF/LTA PFA) amendment in July 2015, cumulative adjustments were made in the current period to net finance expense to reflect Labrador Transco's ratable share of the actual debt drawn.

**8. FINANCIAL INSTRUMENTS**

**Financial Instruments**

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 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).

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

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 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		September 30, 2020		December 31, 2019	
<i>(thousands of Canadian dollars)</i>					
Financial liabilities					
Long-term debt including amount due within one year	2	737,744	931,983	756,848	876,329

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.

**9. RELATED PARTY TRANSACTIONS**

Labrador Transco 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 Labrador Transco transacts are as follows:

Related Party	Relationship
Nalcor	100% shareholder of Labrador Transco
Hydro	Wholly-owned subsidiary of Nalcor
Muskrat Falls	Wholly-owned subsidiary of Nalcor
Lower Churchill Management Corporation (LCMC)	Wholly-owned subsidiary of Nalcor
Labrador-Island Link Limited Partnership (LIL LP)	Limited partnership between Labrador-Island Link Holding Corporation and Emera Newfoundland and Labrador Island Link Inc.
Churchill Falls	Joint arrangement of Hydro

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

- (a) As at September 30, 2020, Labrador Transco has related party payables totaling \$2.9 million (December 31, 2019 - \$2.0 million) with Nalcor, LIL LP, LCMC and Muskrat Falls and related party receivables totaling \$nil (December 31, 2019 - \$71 thousand). These payables/receivables consist of various intercompany operating and construction costs.
- (b) During 2020, Labrador Transco has received contributions from Nalcor totaling \$nil (September 30, 2019 - \$11.4 million).

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

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**10. COMMITMENTS AND CONTINGENCIES**

- (a) Labrador Transco has entered into the GIA with Muskrat Falls and Hydro, for an expected term of 57 years, whereby Labrador Transco has committed to design, construct, operate and maintain the LTA, and provides such other services as agreed to ensure safe and reliable transmission of electricity. During 2018 Labrador Transco also entered into the Interim Transmission Funding Agreement with Hydro, whereby Labrador Transco will operate and maintain the LTA during the pre-full commissioning interim use period and provide such services as agreed to ensure safe and reliable transmission of electricity.
- (b) As part of the MF/LTA PFA, Labrador Transco has pledged its present and future assets as security to the Collateral Agent.
- (c) Labrador Transco 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 Labrador Transco'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.
- (d) Outstanding commitments for capital projects total approximately \$1.1 million as at September 30, 2020 (December 31, 2019 - \$1.3 million).

**11. SUPPLEMENTARY CASH FLOW INFORMATION**

<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
Trade and other receivables	<b>36,260</b>	9,205	<b>96</b>	5,472
Inventories	<b>(16)</b>	-	<b>(16)</b>	-
Trade and other payables	<b>133</b>	(22,379)	<b>(64)</b>	(9,653)
Changes in non-cash working capital balances	<b>36,377</b>	(13,174)	<b>16</b>	(4,181)
Related to:				
Operating activities	<b>(598)</b>	18	<b>116</b>	9
Investing activities	<b>36,975</b>	(13,192)	<b>(100)</b>	(4,190)
	<b>36,377</b>	(13,174)	<b>16</b>	(4,181)