

**LOWER CHURCHILL MANAGEMENT CORPORATION
CONDENSED INTERIM FINANCIAL STATEMENTS**

June 30, 2016

(Unaudited)

LOWER CHURCHILL MANAGEMENT CORPORATION
STATEMENT OF FINANCIAL POSITION
(Unaudited)

	June 30	December 31
<i>As at (thousands of Canadian dollars)</i>	2016	2015
ASSETS		
Current assets		
Cash and cash equivalents	433	20,636
Trade and other receivables	28,462	10,311
Total assets	28,895	30,947
LIABILITIES AND EQUITY		
Current liabilities		
Trade and other payables	28,192	30,417
Total liabilities	28,192	30,417
Shareholder's equity		
Share capital	1	1
Retained earnings	702	529
Total equity	703	530
Total liabilities and equity	28,895	30,947

Commitments and contingencies (Note 7)

See accompanying notes

LOWER CHURCHILL MANAGEMENT CORPORATION
STATEMENT OF PROFIT AND COMPREHENSIVE INCOME
(Unaudited)

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Six months ended	
		2016	2015	2016	2015
Revenue					
Other revenue		90	90	210	180
Expenses					
Operating costs		9	(14)	17	(11)
Net finance (income) expense	3	(6)	2	(4)	8
Other (income) expense	4	19	-	24	-
Total comprehensive income for the period		68	102	173	183

See accompanying notes

LOWER CHURCHILL MANAGEMENT CORPORATION
STATEMENT OF CHANGES IN EQUITY
(Unaudited)

<i>(thousands of Canadian dollars)</i>	Share Capital	Retained Earnings	Total
Balance at January 1, 2016	1	529	530
Total comprehensive income for the period	-	173	173
Balance at June 30, 2016	1	702	703
Balance at January 1, 2015	1	265	266
Total comprehensive income for the period	-	183	183
Balance at June 30, 2015	1	448	449

LOWER CHURCHILL MANAGEMENT CORPORATION
STATEMENT OF CASH FLOWS
(Unaudited)

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Six months ended	
		2016	2015	2016	2015
Cash provided from (used in)					
Operating activities					
Profit for the period		68	102	173	183
Changes in non-cash working capital balances	8	(22,823)	(3,114)	(20,376)	(909)
Net cash used in operating activities		(22,755)	(3,012)	(20,203)	(726)
Net decrease in cash and cash equivalents		(22,755)	(3,012)	(20,203)	(726)
Cash and cash equivalents, beginning of period		23,188	5,505	20,636	3,219
Cash and cash equivalents, end of period		433	2,493	433	2,493
Interest received		7	-	7	-
Interest paid		1	2	3	8

See accompanying notes

LOWER CHURCHILL MANAGEMENT CORPORATION
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

1. DESCRIPTION OF BUSINESS

Lower Churchill Management Corporation (LCMC or the Company), was incorporated on November 13, 2013 under the laws of Newfoundland and Labrador. LCMC is a 100% owned subsidiary of Nalcor Energy (Nalcor). LCMC's head office is located at 500 Columbus Drive, St. John's, Newfoundland and Labrador, A1B 0M7, Canada.

LCMC was formed to carry out the project development and management functions for Phase 1 of the Lower Churchill Project including planning, engineering and design management, construction management, risk management, finance, procurement and supply chain management for Muskrat Falls Corporation (Muskrat Falls), Labrador Transmission Corporation (Labrador Transco) and the Labrador-Island Link Limited Partnership (LIL LP).

In addition, LCMC acts as the administrator on behalf of the Trustee for the Muskrat Falls/Labrador Transmission Assets Funding Trust (MF/LTA Funding Trust), the Labrador-Island Link Funding Trust (LIL Funding Trust) and the LIL Construction Project Trust (the IT) (collectively the Trusts) as part of the project financing arrangements for the \$5.0 billion debt issuance, guaranteed by the Government of Canada. In this capacity, LCMC provides management and administrative services as required by the Trusts.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance and Basis of Measurement

These condensed interim financial statements have been prepared in accordance with International Accounting Standards (IAS) 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, 2015.

These condensed interim financial statements do not include all of the disclosures normally found in LCMC'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 condensed interim financial statements were approved by LCMC's Board of Directors on August 9, 2016.

3. NET FINANCE (INCOME) EXPENSE

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Three months ended		Six months ended	
	2016	2015	2016	2015
Finance expense				
Net interest	(7)	-	(7)	4
Bank charges	1	2	3	4
Net finance (income) expense	(6)	2	(4)	8

4. OTHER (INCOME) EXPENSE

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Three months ended		Six months ended	
	2016	2015	2016	2015
Unrealized foreign exchange loss	19	-	24	-
Other (income) expense	19	-	24	-

5. FINANCIAL INSTRUMENTS

Fair Value

The estimated fair values of financial instruments as at June 30, 2016 and December 31, 2015 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 below are not necessarily indicative of the amounts that LCMC might receive or incur in actual market transactions.

As a significant number of LCMC's assets and liabilities do not meet the definition of a financial instrument, the fair value estimates below do not reflect the fair value of LCMC 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 periods ended June 30, 2016 and December 31, 2015.

As at June 30, 2016 and December 31, 2015, the Company did not have any Level 2 or Level 3 instruments. The fair values of cash and cash equivalents, trade and other receivables and trade and other payables approximate their carrying values due to their short-term maturity.

LOWER CHURCHILL MANAGEMENT CORPORATION
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

6. RELATED PARTY TRANSACTIONS

LCMC 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 LCMC transacts are as follows:

Related Party	Relationship
Nalcor	100% shareholder of LCMC
Labrador-Island Link General Partner Corporation (LIL GP)	100% owned subsidiary of Nalcor
Labrador-Island Link Holding Corporation (LIL Holdco)	100% owned subsidiary of Nalcor
Labrador-Island Link Operating Corporation (LIL Opco)	100% owned subsidiary of Nalcor
Labrador Transco	100% owned subsidiary of Nalcor
Muskrat Falls	100% owned subsidiary of Nalcor
Newfoundland and Labrador Hydro (Hydro)	100% owned subsidiary of Nalcor
LIL LP	Limited Partnership between LIL Holdco and Emera Newfoundland and Labrador Island Link Inc.
IT	Party to the Project Finance Agreements (PFA's)
LIL Funding Trust	Party to the PFA's
MF/LTA Funding Trust	Party to the PFA's

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

7. COMMITMENTS AND CONTINGENCIES

- (a) LCMC 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 LCMC's exposure to such claims and litigation, to the extent not covered by insurance policies or otherwise provided for is not expected to materially affect its financial position.
- (b) Outstanding commitments for capital projects total approximately \$212.6 million (December 31, 2015 - \$232.2 million).

8. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Three months ended		Six months ended	
	2016	2015	2016	2015
Trade and other receivables	(19,260)	(6,257)	(18,151)	2,162
Prepayments	-	-	-	2,275
Trade and other payables	(3,563)	3,143	(2,225)	(5,346)
Changes in non-cash working capital balances	(22,823)	(3,114)	(20,376)	(909)