LOWER CHURCHILL MANAGEMENT CORPORATION
FINANCIAL STATEMENTS
December 31, 2014

DIRECTORS

EDMUND MARTIN
President and Chief Executive Officer

GILBERT BENNETT
Vice President

GERARD MCDONALD
Vice President, Human Resources & Organizational Effectiveness

DERRICK STURGE
Vice President and Chief Financial Officer

DONNA STONE
Investment Advisor, CIBC Wood Gundy

JUNE PERRY
President and CEO, Pilot Communications

OFFICERS

EDMUND MARTIN
Chairperson
President and Chief Executive Officer

GILBERT BENNETT
Vice President, Lower Churchill Project

GERARD MCDONALD
Vice President, Human Resources & Organizational Effectiveness

DERRICK STURGE
Vice President, Finance and Chief Financial Officer

WAYNE CHAMBERLAIN
General Counsel and Corporate Secretary

PETER HICKMAN
Assistant Corporate Secretary

JAMES MEANEY
General Manager, Finance

AUBURN WARREN
General Manager, Commercial, Treasury and Risk

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Independent Auditor's Report

To the Directors of Lower Churchill Management Corporation

We have audited the accompanying financial statements of Lower Churchill Management Corporation which comprise the statement of financial position as at December 31, 2014 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Lower Churchill Management Corporation as at December 31, 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants
March 18, 2015

LOWER CHURCHILL MANAGEMENT CORPORATION
STATEMENT OF FINANCIAL POSITION

As at December 31 (thousands of Canadian dollars)	Notes	**2014**	2013
ASSETS			
Current assets			
Cash and cash equivalents	5	**3,219**	-
Trade and other receivables	6	**22,061**	-
Prepayments		**2,275**	-
Total assets		**27,555**	-
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Trade and other payables	7	**27,290**	3
Total liabilities		**27,290**	3
Shareholder's equity			
Retained earnings (deficit)		**265**	(3)
Total shareholder's equity		**265**	(3)
Total liabilities and shareholder's equity		**27,555**	-

Commitments and contingencies (Note 12)

See accompanying notes

On behalf of the Board:

DIRECTOR

DIRECTOR

LOWER CHURCHILL MANAGEMENT CORPORATION
STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2014 (with comparatives for the one-month period ended December 31, 2013) (thousands of Canadian dollars)	Notes	**2014**	2013
Revenue			
Other revenue		**390**	-
Expenses			
Operating costs		**(45)**	(3)
Net finance income and expense	8	**(77)**	-
Income (loss) for the period, being the comprehensive income (loss) for the period		**268**	(3)

LOWER CHURCHILL MANAGEMENT CORPORATION
STATEMENT OF CHANGES IN EQUITY

For the year ended December 31,2014 (with comparatives for the one-month period ended December 31, 2013) (thousands of Canadian dollars)	**Retained Earnings**	**Total**
Balance at January 1, 2014	**(3)**	**(3)**
Income for the period, being total comprehensive income for the period	**268**	**268**
Balance at December 31, 2014	**265**	**265**
Balance at November 13, 2013	-	-
Loss for the period, being total comprehensive loss for the period	(3)	(3)
Balance at December 31, 2013	(3)	(3)

See accompanying notes

LOWER CHURCHILL MANAGEMENT CORPORATION
STATEMENT OF CASH FLOWS

For the year ended December 31, 2014 with comparatives for the one-month period ended December 31, 2013) (thousands of Canadian dollars)	Notes	**2014**	2013
Cash provided from (used in)			
Operating activities			
Profit (loss) for the period		**268**	(3)
Changes in non-cash working capital balances	9	**2,951**	3
Net cash provided from operating activities		**3,219**	-
Net increase in cash and cash equivalents		**3,219**	-
Cash and cash equivalents, beginning of period		**-**	-
Cash and cash equivalents, end of period		**3,219**	-

Supplementary cash flow information (Note 9)

See accompanying notes

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 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).

LCMC is a 100% owned subsidiary of Nalcor Energy (Nalcor).

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 (IT) (collectively the Trusts) as part of the project financing arrangements (PFAs) of the $5 billion in debt, guaranteed by the Government of Canada. In this capacity LCMC provides management and administrative services as required by the Trusts.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance and Basis of Measurement

These annual audited financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). LCMC has adopted accounting policies which are based on the IFRS applicable as at December 31, 2014, and include individual IFRS, International Accounting Standards (IAS), and interpretations made by the IFRS Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC).

These annual audited financial statements have been prepared on a historical cost basis. The annual audited financial statements are presented in Canadian dollars and all values rounded to the nearest thousand, except when otherwise noted.

These annual audited financial statements were approved by LCMC Board of Directors on March 6, 2015.

2.2 Basis of Consolidation

These financial statements include only the financial statements of LCMC.

LCMC includes the financial statements of investees (including structured entities) only when it has control as defined in IFRS 10 – Consolidated Financial Statements. In accordance with IFRS 10, control is achieved when LCMC:

- has power over the relevant activities of the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect those returns.

Based on the criteria outlined in IFRS 10, LCMC has determined that it does not control any investees and as such these financial statements include only the financial statements of LCMC.

2.3 Cash and Cash Equivalents

As at December 31, 2014, cash and cash equivalents consist of amounts on deposit with Schedule 1 Canadian banks. Cash and cash equivalents are recorded at cost which approximates fair value.

2.4 Trade and other receivables

Trade and other receivables are classified as 'loans and receivables' and are measured at amortized cost using the effective interest method.

2.5 Revenue and Expense Recognition

Revenue is recognized on an accrual basis as earned where by recovery is probable and revenue can be reliably measured. Expenses are recorded as incurred and consist of organizational expenses, operational expenses and other expenses associated with the operation of the Company.

2.6 Net Finance Income and Expense

For all financial instruments measured at amortized cost, interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

2.7 Foreign Currencies

Transactions in currencies other than LCMC's functional currency (foreign currencies) are recognized using the prior month end close rate. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates of exchange in effect at the period end date. Foreign exchange gains and losses resulting from fluctuations associated with borrowing costs are capitalized.

2.8 Income Taxes

The Company is exempt from paying income taxes under Section 149(1) (d.2) of the Income Tax Act.

2.9 Provisions

A provision is a liability of uncertain timing or amount. A provision is recognized if the Company has a present legal obligation or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. The provision is measured at the present value of the best estimate of the expenditures expected to be required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are re-measured at each statement of financial position date using the current discount rate.

2.10 Financial Instruments

Financial assets and financial liabilities are recognized in the Statement of Financial Position when the Company becomes a party to the contractual provisions of the instrument and are initially measured at fair value. Subsequent measurement is based on classification. Financial instruments are classified into the following specified categories: financial assets 'at fair value through profit or loss (FVTPL)', AFS financial assets, loans and receivables, held-to-maturity investments, financial liabilities 'at FVTPL', financial instruments used for hedging and other financial liabilities. The classification depends on the nature and purpose of the financial instruments and is determined at the time of initial recognition.

<u>Classification of Financial Instruments</u>

The Company has classified each of its financial instruments into the following categories: loans and receivables and other financial liabilities.

Cash and cash equivalents	Loans and receivables
Trade and other receivables	Loans and receivables
Prepayments	Loans and receivables
Trade and other payables	Other financial liabilities

(i) Effective Interest Method

The effective interest method is a method of calculating the amortized cost of a financial instrument and allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or disbursements (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for financial instruments other than those financial assets classified as at FVTPL.

<u>Financial Assets</u>

(ii) Financial Assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or

- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives and *IAS 39 Financial Instruments: Recognition and Measurement* (IAS 39) permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

<u>Financial Assets</u>

(iii) Loans and Receivables

Trade receivables, loans and other receivables with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(iv) Held-to-Maturity Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment, with interest revenue recognized on an effective yield basis.

(v) AFS Financial Assets

AFS financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the previous categories. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the fair value reserve with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified to profit or loss.

Financial Liabilities and Equity Instruments

(vi) Classification as Debt or Equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

(vii) Financial Liabilities at FVTPL

A financial liability may be classified as FVTPL if the contracted liability contains one or more embedded derivatives, and if the embedded derivative significantly modified the cash flows or if the embedded derivative is not closely related to the host liability.

(viii) Other Financial Liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

(ix) Derivative Instruments and Financial Instruments used for Hedging

A derivative is a financial instrument or other contracts whose value changes in response to a change in its underlying variable, requires little or no net investment and is settled at a future date. Derivatives are initially measured at fair value at the date the derivative contracts are entered into and are subsequently measured at their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging relationship.

2.11 Impairment of Financial Assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off to the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income (loss) are reclassified to profit or loss in the period. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

2.12 Derecognition of Financial Instruments

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, its retained interest in the asset and an associated liability for amounts it may have to pay is recognized. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, it continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received. The Company derecognizes financial liabilities when, and only when, its obligations are discharged, cancelled or they expire.

2.13 Adoption and Amendments to IFRSs

In the current year, LCMC has applied a number of amendments to IFRSs that are mandatorily effective for an accounting period that begins on or after 1 January 2014.

<u>Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities</u>
LCMC has applied the amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities for the first time in the current year. The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

LCMC is not an investment entity (assessed based on the criteria set out in IFRS 10 as at 1 January 2014), the application of the amendments had no impact on the disclosures or the amounts recognized in LCMC's financial statements.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities
LCMC has applied the amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities for the first time in the current year. The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

As LCMC does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments had no impact on the disclosures or on the amounts recognized in LCMC's financial statements.

Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets
LCMC has applied the amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets for the first time in the current year. The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements.

The application of these amendments had no material impact on the disclosures in LCMC's financial statements.

Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting
LCMC has applied the amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting for the first time in the current year. The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

As LCMC does not have any derivatives that are subject to novation, the application of these amendments had no impact on the disclosures or on the amounts recognized in LCMC's financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these financial statements in accordance 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 including, but not limited to, allocations of costs among entities. Actual results may materially differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is reviewed if the revision affects only that period or future periods.

4. FUTURE CHANGES IN ACCOUNTING POLICIES

LCMC has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[2]

1. Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.
2. Effective for annual periods beginning on or after January 1, 2017, with earlier application permitted.

4.1 IFRS 9 – Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for de-recognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include:

a) impairment requirements for financial assets, and
b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key Requirements of IFRS 9:

- All recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributes to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Management anticipates that the application of IFRS 9 in the future may have a material impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until Management undertakes a detailed review.

4.2 IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a five-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Management anticipates that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Company's financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until Management performs a detailed review.

5. CASH AND CASH EQUIVALENTS

As at December 31, 2014, cash and cash equivalents consist entirely of cash on deposit with a Canadian Schedule 1 Chartered bank.

6. TRADE AND OTHER RECEIVABLES

The composition of trade and other receivables is as follows:

(thousands of Canadian dollars)	**2014**	2013
Receivables due from related parties	**17,572**	-
Other receivables	**4,489**	-
	22,061	-

Other receivables are comprised primarily of government input tax.

7. TRADE AND OTHER PAYABLES

The composition of trade and other payables is as follows:

(thousands of Canadian dollars)	**2014**	2013
Payables due to related parties	**8,592**	-
Other payables	**18,698**	3
	27,290	3

8. NET FINANCE INCOME AND EXPENSE

For the period ended December 31, 2014 (with comparatives for the one month ended December 31, 2013) (thousands of Canadian dollars)	**2014**	2013
Finance Income		
Other interest income	**1**	-
Finance expense		
Net interest on long-term related party payable/receivable	**(74)**	-
Other net finance expense	**(4)**	-
Net finance income and expense	**(77)**	-

9. SUPPLEMENTARY CASH FLOW INFORMATION

(thousands of Canadian dollars)	**2014**	2013
Trade and other receivables	**(22,061)**	-
Prepayments	**(2,275)**	-
Trade and other payables	**27,287**	3
Changes in non-cash working capital balances	**2,951**	3
Interest received	**1**	-
Interest paid	**78**	-

10. FINANCIAL INSTRUMENTS

10.1 Fair Value

The estimated fair values of financial instruments as at December 31, 2014 and December 31, 2013 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 measurement during the years ended December 31, 2013 and December 31, 2014.

As of December 31, 2014 and December 31, 2013, the Company did not have any level 2 or 3 instruments.

	Level	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
(thousands of Canadian dollars)		**2014**		2013	
Financial assets					
Cash and cash equivalents	1	**3,219**	**3,219**	-	-
Trade and other receivables	1	**22,061**	**22,061**	-	-
Financial liabilities					
Trade and other payables	1	**27,290**	**27,290**	3	3

The fair value of cash and cash equivalents, trade and other receivables and trade and other payables approximate their carrying values due to their short-term maturity.

10.2 Financial Risk Management

LCMC is exposed to credit, liquidity and market risks through its operating, investing and financing activities.

(a) Credit Risk

LCMC's expected future cash flows are exposed to credit risk through financing activities, based on the risk of non-performance by counterparties to financial instruments.

Credit risk on cash and cash equivalents is minimal, as LCMC's cash deposits are held by a Canadian Schedule 1 Chartered Bank with a rating of A+ (Standard and Poor's).

The degree of exposure to credit risk on trade and other receivables is determined by the financial capacity and stability of the counterparties whereby the maximum risk is represented by their carrying value on the Statement of Financial Position at the reporting date.

(b) Liquidity Risk

LCMC is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. Activities around liquidity risk management are directed to ensuring cash is available to meet those obligations as they become due. Short-term liquidity is mainly provided through cash and cash equivalents on hand, funds from operations, and a $50.0 million (2013 - $50.0 million) unsecured revolving credit facility with its parent, Nalcor. As at December 31, 2014, LCMC had $3.6 million (2013 - nil) outstanding on this credit facility. The facility is available by way of Prime Rate Advances.

(c) Market Risk

LCMC may be exposed to possible market price movements that could impact expected future cash flow and the carrying value of certain financial assets and liabilities.

Interest Rates

LCMC is exposed to interest rate movement risks as cash deposits held in bank accounts earn interest. The credit facility with Nalcor is based on prime, however borrowings on the credit facility are nominal and of short-term nature minimizing risks associated with movement of market interest rates.

Foreign Currency and Commodity Exposure

LCMC does not hold any financial instrument whose value would vary due to changes in a commodity price or fluctuations in foreign currency exchange rates.

11. 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 Energy (Nalcor)	100% shareholder of LCMC
Newfoundland and Labrador Hydro (Hydro)	100% owned subsidiary of Nalcor
MF/LTA Funding Trust	Party to the PFA’s
LIL Funding Trust	Party to the PFA’s
IT	Party to the PFA’s
Labrador Transco	100% owned subsidiary of Nalcor
Muskrat Falls	100% owned subsidiary of Nalcor
Labrador-Island Link General Partnership	100% owned subsidiary of Nalcor
Labrador-Island Link Operating Corporation	100% owned subsidiary of Nalcor
LIL LP	Limited Partnership between Labrador-Island Link Limited Holding Corporation (LIL Holdco) and Emera Newfoundland and Labrador Island-Link Inc.
LIL Holdco	100% owned subsidiary of Nalcor

12. COMMITMENTS AND CONTINGENCIES

As at December 31, 2014, LCMC had outstanding commitments for construction costs related to the Lower Churchill Project of $279.2 million (2013 - $nil).