

LOWER CHURCHILL MANAGEMENT CORPORATION
FINANCIAL STATEMENTS
December 31, 2016

Independent Auditor's Report

To the Shareholder 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, 2016 and the statements of profit and 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, 2016 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 7, 2017

LOWER CHURCHILL MANAGEMENT CORPORATION
STATEMENT OF FINANCIAL POSITION

<i>As at December 31 (thousands of Canadian dollars)</i>	Notes	2016	2015
ASSETS			
Current assets			
Cash and cash equivalents		29,337	20,636
Trade and other receivables	5	7,192	10,311
Prepayments		1,841	-
Total assets		38,370	30,947
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	6	37,438	30,417
Total liabilities		37,438	30,417
Shareholder's equity			
Share capital	7	1	1
Retained earnings		931	529
Total equity		932	530
Total liabilities and equity		38,370	30,947

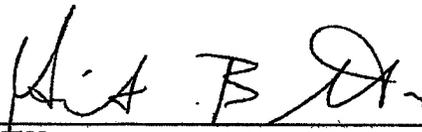
Commitments and contingencies (Note 12)

See accompanying notes

On behalf of the Board:



 DIRECTOR



 DIRECTOR

LOWER CHURCHILL MANAGEMENT CORPORATION
STATEMENT OF PROFIT AND COMPREHENSIVE INCOME

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	Notes	2016	2015
Revenue			
Other revenue		390	360
Expenses			
Operating costs		4	(1)
Net finance (income) expense	8	(42)	19
Other (income) expense	9	26	78
Total comprehensive income for the year		402	264

See accompanying notes

LOWER CHURCHILL MANAGEMENT CORPORATION
STATEMENT OF CHANGES IN EQUITY

<i>(thousands of Canadian dollars)</i>	Share Capital	Retained Earnings	Total
Balance at January 1, 2016	1	529	530
Total comprehensive income for the year	-	402	402
Balance at December 31, 2016	1	931	932
Balance at January 1, 2015	1	265	266
Total comprehensive income for the year	-	264	264
Balance at December 31, 2015	1	529	530

LOWER CHURCHILL MANAGEMENT CORPORATION
STATEMENT OF CASH FLOWS

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	Notes	2016	2015
<hr/>			
Cash provided from (used in)			
Operating activities			
Profit for the year		402	264
Changes in non-cash working capital balances	14	8,299	17,153
Net cash provided from operating activities		8,701	17,417
<hr/>			
Net increase in cash and cash equivalents		8,701	17,417
Cash and cash equivalents, beginning of year		20,636	3,219
Cash and cash equivalents, end of year		29,337	20,636
<hr/>			
Interest received		49	-
Interest paid		7	20

See accompanying notes

LOWER CHURCHILL MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

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

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, 2016, and include individual IFRS, International Accounting Standards (IAS), and interpretations made by the IFRS Interpretations Committee and the Standing Interpretations Committee.

These annual audited financial statements have been prepared on a historical cost basis. The annual audited financial statements are presented in Canadian Dollars (CAD) and all values rounded to the nearest thousand, except when otherwise noted. The annual audited financial statements were approved by LCMC's Board of Directors on February 24, 2017.

2.2 Cash and Cash Equivalents

Cash and cash equivalents consist of amounts on deposit with a Schedule 1 Canadian Chartered Bank. Cash and cash equivalents are measured at cost which approximates fair value.

2.3 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.

2.4 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 the current market assessments of the time value of money and the risks specific to the obligation. Provisions are re-measured at each Statement of Financial Position date using the current discount rate.

2.5 Revenue Recognition

Revenue is recognized on an accrual basis as earned, when recovery is probable and the amount of revenue can be reliably measured.

LOWER CHURCHILL MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

2.6 Net Finance (Income) Expense

For all financial instruments measured at amortized cost and interest bearing financial assets classified as available-for-sale (AFS), 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 exchange rate in effect at the date of transaction, approximated by 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 are included in the Statement of Profit and Comprehensive Income as other (income) expense.

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 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.

Classification of Financial Instruments

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

<u>Financial instrument</u>	<u>Category</u>
Cash and cash equivalents	Loans and receivables
Trade and other receivables	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 payments (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 or expense is recognized on an effective interest basis for financial instruments other than those financial assets and liabilities classified as at FVTPL.

Financial Assets

(ii) 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.

LOWER CHURCHILL MANAGEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS

Financial Liabilities and Equity Instruments

(iii) 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.

2.10 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 any 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 the collateralized borrowing for the proceeds received. The Company derecognizes financial liabilities when, and only when, its obligations are discharged, cancelled or they expire.

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
- the borrower, more probable than not, entering into 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 against the allowance account. Subsequent recoveries of amounts previously written off are credited to 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 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.

LOWER CHURCHILL MANAGEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the annual audited 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. Actual results may differ materially 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.

3.1 Use of Judgment

(i) Functional currency

Functional currency was determined by evaluating the primary economic environment in which the Company operates. As the Company enters into transactions in multiple currencies, judgment is used in determining the functional currency. Management considered factors regarding currency of sales, costs incurred, and operating and financing activities and determined the functional currency to be CAD.

4. FUTURE CHANGES IN ACCOUNTING POLICIES

Amendments to IAS 1 – Disclosure Initiatives that became effective for annual periods beginning on or after January 1, 2016 did not have a material impact on LCMC’s annual audited financial statements.

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

Amendments to IAS 7 - Disclosure Initiative¹

IFRS 9 - Financial Instruments²

IFRS 15 - Revenue from Contracts with Customers²

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

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

4.1 Amendments to IAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific format to disclose financing activities; however, an entity may fulfil the disclosure objective by providing reconciliation between the opening and closing balances in the Statement of Financial Position for liabilities arising from financing activities.

The amendments apply prospectively. Entities are not required to present comparative information for earlier periods.

Management does not anticipate that the application of these amendments to IAS 7 will have a material impact on LCMC’s annual audited financial statement disclosures.

4.2 IFRS 9 Financial Instruments

In July 2014, the IASB finalized the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which contains the requirements for a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting. IFRS 9 (as revised in 2014) will supersede IAS 39 Financial Instruments: Recognition and Measurement upon its effective date.

Phase 1: Classification and measurement of financial assets and financial liabilities

With respect to the classification and measurement, the number of categories of financial assets under IFRS 9 has been reduced; all recognized financial assets that are currently within the scope of IAS 39 will be subsequently measured at either amortized cost or fair value under IFRS 9.

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IFRS 9 also contains requirements for the classification and measurement of financial liabilities and derecognition requirements. One major change from IAS 39 relates to the presentation of changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of that liability. Under IFRS 9, such changes are presented in other comprehensive income, unless the presentation of the effect of the change in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

Phase 2: Impairment of financial assets

The impairment model under IFRS 9 reflects expected credit losses, as opposed to incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

Phase 3: Hedge accounting

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions 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 no longer required. Far more disclosure requirements about an entity's risk management activities have been introduced.

Transitional provisions

IFRS 9 (as revised in 2014) is effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. Management has elected to adopt the standard as of the effective date, and although the classifications of existing financial instruments and related disclosures will change, Management does not anticipate material adjustments to LCMC's annual audited financial statements upon transition.

4.3 IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It will supersede the following revenue standards and interpretations upon its effective date:

- IAS 18 Revenue;
- IAS 11 Construction Contracts;
- IFRIC 13 Customer Loyalty Programs;
- IFRIC 15 Agreements for the Construction of Real Estate;
- IFRIC 18 Transfers of Assets from Customers; and
- SIC 31 Revenue-Barter Transactions Involving Advertising Services.

As suggested by the title of the new revenue standard, IFRS 15 will only cover revenue arising from contracts with customers. Under IFRS 15, a customer of an entity is a party that has contracted with the entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. Unlike the scope of IAS 18, the recognition and measurement of interest income and dividend income from debt and equity investments are no longer within the scope of IFRS 15. Instead, they are within the scope of IAS 39 (or IFRS 9 if it is early adopted).

As mentioned above, the new standard has a single model to deal with revenue from contracts with customers. Its core principle 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.

LOWER CHURCHILL MANAGEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Extensive disclosures are also required by the new standard.

Management does not anticipate that the application of IFRS 15 in the future will have a material impact on the amounts reported and disclosures made in LCMC's annual audited financial statements.

5. TRADE AND OTHER RECEIVABLES

<i>As at December 31 (thousands of Canadian dollars)</i>	2016	2015
Receivables due from related parties	4,690	7,017
Other receivables	2,502	3,294
	7,192	10,311

Other receivables are comprised primarily of input tax credits.

6. TRADE AND OTHER PAYABLES

<i>As at December 31 (thousands of Canadian dollars)</i>	2016	2015
Trade payables	21,840	21,680
Payables due to related parties	14,639	5,216
Other payables	959	3,521
	37,438	30,417

As at December 31, 2016, trade and other payables included balances of \$0.2 million USD (2015 - \$1.0 million USD).

7. SHARE CAPITAL

<i>As at December 31 (thousands of Canadian dollars)</i>	2016	2015
Common shares without nominal or par value		
Authorized - unlimited		
Issued - fully paid and outstanding - 100	1	1

8. NET FINANCE (INCOME) EXPENSE

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	2016	2015
Finance income		
Bank interest	46	-
Other interest income	3	-
Finance expense		
Bank interest	-	12
Bank charges	7	7
Net finance (income) expense	(42)	19

9. OTHER (INCOME) EXPENSE

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	2016	2015
Unrealized foreign exchange loss	26	78
Other (income) expense	26	78

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NOTES TO FINANCIAL STATEMENTS

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

10.1 Fair Value

The estimated fair values of financial instruments as at December 31, 2016 and 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 years ended December 31, 2016 and 2015.

As at December 31, 2016 and 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.

10.2 Risk Management

LCMC is exposed to certain credit, liquidity and market price risks through its operating, financing and investing activities. Financial risk is managed in accordance with a Board-approved policy, which outlines the objectives and strategies for the management of financial risk, including the use of derivative contracts. Permitted financial risk management strategies are aimed at minimizing the volatility of LCMC's expected future cash flows.

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 its 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.

LOWER CHURCHILL MANAGEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS

Liquidity Risk

LCMC is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. Liquidity risk management activities 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 (2015 - \$50.0 million) unsecured revolving credit facility with its parent, Nalcor. As at December 31, 2016, there was no balance outstanding (2015 - \$nil) on this credit facility. The facility is available by way of Prime Rate Advances.

The following are the contractual maturities of LCMC's financial liabilities as at December 31, 2016:

<i>As at December 31 (thousands of Canadian dollars)</i>	< 1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	37,438	-	-	-	37,438

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 instruments whose value would vary due to changes in a commodity price or fluctuations in foreign currency exchange rates. There is no cash flow exposure to foreign exchange risk since all realized gains and losses are passed along to the project companies.

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	100% shareholder of LCMC
Labrador-Island Link General Partner Corporation	Wholly-owned subsidiary of Nalcor
Labrador-Island Link Holding Corporation	Wholly-owned subsidiary of Nalcor
Labrador-Island Link Operating Corporation	Wholly-owned subsidiary of Nalcor
Labrador Transco	Wholly-owned subsidiary of Nalcor
Muskrat Falls	Wholly-owned subsidiary of Nalcor
Newfoundland and Labrador Hydro	Wholly-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.

- (a) LCMC has a \$50.0 million (2015 - \$50.0 million) unsecured revolving credit facility with its parent, Nalcor. As at December 31, 2016, there was no balance outstanding (2015 - \$nil) on this credit facility.
- (b) As at December 31, 2016, LCMC has related party payables totaling \$14.6 million (2015 - \$5.2 million) with Nalcor,

LOWER CHURCHILL MANAGEMENT CORPORATION
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Labrador Transco, Hydro, and Muskrat Falls and related party receivables totaling \$4.7 million (2015 - \$7.0 million) with LIL LP, LIL GP, LIL Holdco, and LIL Opco. These payables/receivables consist of various intercompany operating and construction costs.

- (c) For the year ended December 31, 2016, LCMC had revenue of \$0.4 million (2015 - \$0.4 million) for providing project development and management functions for Muskrat Falls, Labrador Transco and LIL.
- (d) For the year ended December 31, 2016, LCMC was charged \$23.8 million (2015 - \$18.1 million) by Nalcor and Hydro related to intercompany salary costs, administrative services and power purchases for the Lower Churchill Project. LCMC subsequently passes on these costs to Muskrat Falls, Labrador Transco, and LIL LP as part of the project development and management functions LCMC provides to these companies.

12. 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 \$172.6 million as at December 31, 2016 (2015 - \$226.9 million).

13. CAPITAL MANAGEMENT

Long-term capital includes cash calls, share capital and retained earnings. LCMC's objectives when managing capital are to maintain its ability to continue as a going concern and ensure timely payment of its contractual obligations as it relates to its project development and management functions for Phase 1 of the Lower Churchill Project. Managing cash calls from related parties is a key aspect of ensuring the availability of funding.

14. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	2016	2015
Trade and other receivables	3,119	11,751
Prepayments	(1,841)	2,275
Trade and other payables	7,021	3,127
Changes in non-cash working capital balances	8,299	17,153