

**LOWER CHURCHILL MANAGEMENT CORPORATION**  
**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**March 31, 2017**  
**(Unaudited)**

**LOWER CHURCHILL MANAGEMENT CORPORATION**  
**STATEMENT OF FINANCIAL POSITION**  
**(Unaudited)**

	<b>March 31</b>	December 31
<i>As at (thousands of Canadian dollars)</i>	<b>2017</b>	2016
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	<b>21,984</b>	29,337
Trade and other receivables	<b>5,706</b>	7,192
Prepayments	<b>2,391</b>	1,841
<b>Total assets</b>	<b>30,081</b>	38,370
<b>LIABILITIES AND EQUITY</b>		
Current liabilities		
Trade and other payables	<b>29,022</b>	37,438
<b>Total liabilities</b>	<b>29,022</b>	37,438
Shareholder's equity		
Share capital	<b>1</b>	1
Retained earnings	<b>1,058</b>	931
<b>Total equity</b>	<b>1,059</b>	932
<b>Total liabilities and equity</b>	<b>30,081</b>	38,370

Commitments and contingencies (Note 6)

*See accompanying notes*

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

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Notes	<b>Three months ended</b>	
		<b>2017</b>	<b>2016</b>
Other revenue		<b>120</b>	120
Operating costs		<b>16</b>	8
Net finance (income) expense	3	<b>(26)</b>	2
Unrealized foreign exchange loss		<b>3</b>	5
Expenses		<b>(7)</b>	15
Total profit and comprehensive income for the period		<b>127</b>	105

*See accompanying notes*

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

<i>(thousands of Canadian dollars)</i>	<b>Share Capital</b>	<b>Retained Earnings</b>	<b>Total</b>
<b>Balance at January 1, 2017</b>	<b>1</b>	<b>931</b>	<b>932</b>
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>127</b>	<b>127</b>
<b>Balance at March 31, 2017</b>	<b>1</b>	<b>1,058</b>	<b>1,059</b>
Balance at January 1, 2016	1	529	530
Total comprehensive income for the period	-	105	105
Balance at March 31, 2016	1	634	635

**LOWER CHURCHILL MANAGEMENT CORPORATION**  
**STATEMENT OF CASH FLOWS**  
**(Unaudited)**

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Notes	<b>Three months ended</b>	
		<b>2017</b>	2016
Operating activities			
Profit for the period		<b>127</b>	105
Changes in non-cash working capital balances	7	<b>(7,480)</b>	2,447
Net cash (used in) provided from operating activities		<b>(7,353)</b>	2,552
Net (decrease) increase in cash and cash equivalents		<b>(7,353)</b>	2,552
Cash and cash equivalents, beginning of period		<b>29,337</b>	20,636
Cash and cash equivalents, end of period		<b>21,984</b>	23,188
Interest received		<b>28</b>	-
Interest paid		<b>1</b>	2

*See accompanying notes*

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

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**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, 2016.

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 Board of Directors of LCMC 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 statements on May 9, 2017.

**3. NET FINANCE (INCOME) EXPENSE**

	<b>Three months ended</b>	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	<b>2017</b>	<b>2016</b>
Finance income		
Bank interest	<b>27</b>	-
Finance expense		
Bank charges	<b>1</b>	<b>2</b>
<b>Net finance (income) expense</b>	<b>(26)</b>	<b>2</b>

**4. FINANCIAL INSTRUMENTS**

**Fair Value**

The estimated fair values of financial instruments as at March 31, 2017 and December 31, 2016 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 LCMC might receive or incur in actual market transactions.

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

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As a significant number of LCMC'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 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 March 31, 2017 and December 31, 2016.

As at March 31, 2017 and December 31, 2016, 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.

**5. 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)	Wholly-owned subsidiary of Nalcor
Labrador-Island Link Holding Corporation (LIL Holdco)	Wholly-owned subsidiary of Nalcor
Labrador-Island Link Operating Corporation (LIL Opco)	Wholly-owned subsidiary of Nalcor
Labrador Transco	Wholly-owned subsidiary of Nalcor
Muskat Falls	Wholly-owned subsidiary of Nalcor
Newfoundland and Labrador Hydro (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 (December 31, 2016 - \$50.0 million) unsecured revolving credit facility with its parent, Nalcor. As at March 31, 2017, there was no balance outstanding (December 31, 2016 - \$nil) on this credit facility.

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

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- (b) As at March 31, 2017, LCMC has related party payables totaling \$12.6 million (December 31, 2016 - \$14.6 million) with Nalcor, Labrador Transco, Hydro, and LIL LP and related party receivables totaling \$1.6 million (December 31, 2016 - \$4.7 million) with Muskrat Falls, LIL GP, LIL Holdco, and LIL Opco. These payables and receivables consist of various intercompany operating and construction costs.
- (c) For the period ended March 31, 2017, LCMC had revenue of \$0.1 million (March 31, 2016 - \$0.1 million) for providing project development and management functions for Muskrat Falls, Labrador Transco and LIL LP.
- (d) For the period ended March 31, 2017, LCMC was charged \$4.6 million (March 31, 2016 - \$4.6 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.

**6. 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 \$174.1 million as at March 31, 2017 (December 31, 2016 - \$172.6 million).

**7. SUPPLEMENTARY CASH FLOW INFORMATION**

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	<b>Three months ended</b>	
	<b>2017</b>	<b>2016</b>
Trade and other receivables	<b>1,486</b>	1,109
Prepayments	<b>(550)</b>	-
Trade and other payables	<b>(8,416)</b>	1,338
Changes in non-cash working capital balances	<b>(7,480)</b>	2,447