LOWER CHURCHILL MANAGEMENT CORPORATION
FINANCIAL STATEMENTS
December 31, 2019

Deloitte LLP
5 Springdale Street
Suite 1000
St. John's NL A1E 0E4
Canada

Tel: 709-576-8480
Fax: 709-576-8460
www.deloitte.ca

Independent Auditor's Report

To the Shareholder of Lower Churchill Management Corporation

Opinion

We have audited the financial statements of Lower Churchill Management Corporation (the "Company"), which comprise the statement of financial position as at December 31, 2019, and the statements of profit and comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte LLP

Chartered Professional Accountants
February 28, 2020

LOWER CHURCHILL MANAGEMENT CORPORATION
STATEMENT OF FINANCIAL POSITION

As at December 31 (thousands of Canadian dollars)	Notes	**2019**	2018
ASSETS			
Current assets			
Cash		**1,616**	5,563
Trade and other receivables	5	**17,620**	31,202
Prepayments	6	**721**	2
Total current assets		**19,957**	36,767
Non-current assets			
Right-of-use assets	7	**1,263**	-
Total assets		**21,220**	36,767
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	8	**17,397**	34,828
Current portion of lease liabilities	9	**1,280**	-
Total liabilities		**18,677**	34,828
Shareholder’s equity			
Share capital	10	**1**	1
Retained earnings		**2,542**	1,938
Total equity		**2,543**	1,939
Total liabilities and equity		**21,220**	36,767

Commitments and contingencies (Note 15)

See accompanying notes

On behalf of the Board:

DIRECTOR

DIRECTOR

LOWER CHURCHILL MANAGEMENT CORPORATION
STATEMENT OF PROFIT AND COMPREHENSIVE INCOME

For the year ended December 31 (thousands of Canadian dollars)	Notes	**2019**	2018
Revenue			
Other revenue	14	**390**	390
Net finance income	11	**243**	161
Total revenue		**633**	551
Expenses			
Operating costs	12	**28**	22
Unrealized foreign exchange loss		**1**	13
Total expenses		**29**	35
Total profit and comprehensive income for the year		**604**	516

See accompanying notes

LOWER CHURCHILL MANAGEMENT CORPORATION
STATEMENT OF CHANGES IN EQUITY

(thousands of Canadian dollars)	Share Capital	Retained Earnings	Total
Balance at January 1, 2019	**1**	**1,938**	**1,939**
Total profit and comprehensive income for the year	**-**	**604**	**604**
Balance at December 31, 2019	**1**	**2,542**	**2,543**
Balance at January 1, 2018	1	1,422	1,423
Total profit and comprehensive income for the year	-	516	516
Balance at December 31, 2018	1	1,938	1,939

LOWER CHURCHILL MANAGEMENT CORPORATION
STATEMENT OF CASH FLOWS

For the year ended December 31 (thousands of Canadian dollars)	Notes	**2019**	2018
Operating activities			
Profit for the year		**604**	516
Adjustments to reconcile profit to cash (used in) provided from operating activities:			
Finance income	11	**(249)**	(170)
Finance expense	11	**6**	9
Changes in non-cash working capital balances	17	**(3,105)**	1,020
Interest received		**249**	170
Interest paid		**(6)**	(9)
Net cash (used in) provided from operating activities		**(2,501)**	1,536
Financing activity			
Repayment of lease liabilities		**(1,446)**	-
Net cash used in financing activity		**(1,446)**	-
Net (decrease) increase in cash		**(3,947)**	1,536
Cash, beginning of the year		**5,563**	4,027
Cash, end of the year		**1,616**	5,563

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. 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, the Labrador-Island Link Funding Trust and the LIL Construction Project Trust (the IT) (collectively the Trusts) as part of the project financing arrangements for the $7.9 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 IFRS applicable as at December 31, 2019, and includes 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 and are presented in Canadian Dollars (CAD) with 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 26, 2020.

2.2 Cash

Cash consists of amounts on deposit with a Schedule 1 Canadian Chartered Bank.

2.3 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.

2.4 Revenue Recognition

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

2.5 Leasing

Lessee Accounting

LCMC assesses whether a contract is or contains a lease, at inception of a contract. LCMC recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets. For these leases, LCMC would normally recognize the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. However, as LCMC is still in the construction phase of its operations, lease payments are subsequently capitalized within property, plant and equipment and allocated to Muskrat Falls, Labrador Transco and LIL LP.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, LCMC uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed (and in-substance) lease payments less any lease incentives;
- variable lease payments that depend on an index or rate; and
- payments expected under residual value guarantees and payments relating to purchase options and renewal option periods that are reasonably certain to be exercised (or periods subject to termination options that are not reasonably certain to be exercised).

The lease liability is subsequently measured at amortized cost using the effective interest method. Lease liabilities are remeasured, with a corresponding adjustment to the related right-of-use assets, when there is a change in variable lease payments arising from a change in an index or rate, or when LCMC changes its assessment of whether purchase, renewal or termination options will be exercised

LCMC did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever LCMC incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under *IAS 37 - Provisions, Contingent Liabilities and Contingent Assets*. The costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the shorter period of the lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that LCMC expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of the lease.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments would normally be recognized as an expense in operating costs in the period in which the event or condition that triggers those payments occurs. However, as LCMC is still in the construction phase of its operations, these payments are subsequently capitalized within property, plant and equipment and allocated to Muskrat Falls, Labrador Transco and LIL LP.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. LCMC has elected to apply this practical expedient.

2.6 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 unrealized foreign exchange loss.

2.7 Income Taxes

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

2.8 Financial Instruments

Classification and Initial Measurement

Financial assets and financial liabilities are recognized in the Statement of Financial Position when LCMC becomes a party to the contractual provisions of the instrument and are initially measured at fair value.

Financial assets are classified at amortized cost, fair value through other comprehensive income (FVTOCI), fair value through profit or loss (FVTPL) or as derivatives designated as hedging instruments in an effective hedge. Financial liabilities are classified as financial liabilities designated at FVTPL, amortized cost or as derivatives designated as hedging instruments in an effective hedge. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial Assets at Amortized Cost

Financial assets with contractual cash flows arising on specified dates, consisting solely of principal and interest, and that are held within a business model whose objective is to collect the contractual cash flows are subsequently measured at amortized cost using the effective interest rate method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

LCMC's financial assets at amortized cost include cash and trade and other receivables.

Financial Liabilities at Amortized Cost

LCMC subsequently measures all financial liabilities at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liability is derecognized.

LCMC's financial liabilities at amortized cost include trade and other payables.

Derecognition of Financial Instruments

LCMC derecognizes a financial asset 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 party.

LCMC derecognizes financial liabilities when, and only when, its obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Impairment of Financial Assets

LCMC recognizes a loss allowance for expected credit losses (ECL) on investments in debt instruments that are measured at amortized cost or at FVTOCI. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

LCMC always recognizes lifetime ECL for trade and other receivables. The ECL on these financial assets are estimated based on LCMC's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. LCMC also records 12-month ECL for those financial assets which have low credit risk and where the low credit risk exemption has been applied. The classes of financial assets that have been identified to have low credit risk consist of cash.

For all other financial instruments, LCMC recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, LCMC measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

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 Judgments

(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.

(ii) Leases

Definition of a lease

At inception of a contract, LCMC assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, LCMC assesses whether the contract involves the use of an identified asset, LCMC has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use and LCMC has the right to direct the use of the asset.

Lease extension and termination options

In determining the lease term, LCMC considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. The assessment is reviewed if a significant event or a significant change in circumstances occurs within its control. The assessment requires the consideration of facts and circumstances such as contractual terms and conditions for option periods, significant leasehold improvements undertaken, costs to terminate the lease, the importance of the asset to the leasee’s operations and past practice.

3.2 Use of Estimates

Leases incremental borrowing rate

LCMC uses its incremental borrowing rates in measuring its lease liabilities. The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The determination of the incremental borrowing rate requires the consideration of different components, all of which are to incorporate a number of important lease characteristics.

4. CURRENT AND FUTURE CHANGES IN ACCOUNTING POLICIES

The following is a list of standards/interpretations that have been issued and are effective for accounting periods commencing on January 1, 2019 or January 1, 2020, as specified.

- IFRS 16 – Leases[1]
- IAS 1 – Presentation of Financial Statements[2] and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors[2] (Amendments to IAS 1 and IAS 8)

[1] Effective for annual periods beginning on or after January 1, 2019.
[2] Effective for annual periods beginning on or after January 1, 2020.

4.1 IFRS 16 - Leases

Effective January 1, 2019 LCMC adopted *IFRS 16 – Leases* which introduces significant changes to lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low-value assets.

LCMC has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under *IAS 17 – Leases and IFRIC 4 – Determining Whether an Arrangement contains a Lease*.

Impact of the new definition of a lease

LCMC has not elected to apply the practical expedient available on transition to IFRS 16, not to reassess whether a contract is or contains a lease at the date of initial application.

In preparation for the first-time application of IFRS 16, LCMC has carried out an implementation project which has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for LCMC.

Impact on Lessee Accounting

Former operating leases

IFRS 16 changes how LCMC accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet.

Applying IFRS 16, for all leases (except as noted below), LCMC:

a) recognizes right-of-use assets and lease liabilities in the Statement of Financial Position, initially measured at the present value of future lease payments;
b) capitalizes depreciation of right-of-use assets and interest on lease liabilities as use of these assets is directly attributable to the construction of the Labrador Island Link (LIL), the Labrador Transmission Assets (LTA), and the Muskrat Falls hydroelectric facility (subsequently allocated to Muskrat Falls, Labrador Transco and LIL LP); and

c) separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the Statement of Cash Flows.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), LCMC would normally opt to recognize a lease expense on a straight-line basis as permitted by IFRS 16. However, as LCMC is still in the construction phase of its operations, LCMC has capitalized the lease payments within property, plant and equipment (subsequently allocated to Muskrat Falls, Labrador Transco and LIL LP).

Former finance leases
The main difference between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of residual value guarantees provided by a lessee to a lessor. LCMC did not have any leases previously accounted for as finance leases under IAS 17, therefore, this change did not have an effect on its financial statements.

Impact on Lessor Accounting
IFRS 16 does not substantially change how a lessor accounts for leases. The changes to lessor accounting did not have an effect on LCMC’s financial statements.

Financial impact of the application of IFRS 16
On transition to IFRS 16, LCMC recognized lease liabilities in relation to leases which had previously been classified as operating leases under IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using LCMC’s incremental borrowing rate as of January 1, 2019. The weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 2.704%. The associated right-of-use assets were measured at the amount equal to the corresponding lease liabilities totalling $2.7M.

(thousands of Canadian dollars)	
Operating lease commitments disclosed as at December 31, 2018	-
Additional operating lease commitments recognized under IFRS 16 as at January 1, 2019	3,271
Total operating lease commitments	3,271
Discounted using the incremental borrowing rate of 2.704%	3,199
Less: short-term leases recognized on a straight-line basis	(527)
Lease liability recognized as at January 1, 2019	2,672

In applying IFRS 16, LCMC elected to use the following practical expedients, permitted by the standard:

- accounting for operating leases with a remaining lease term of less than 12 months at January 1, 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

4.2 IAS 1 - Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (Amendments to IAS 1 and IAS 8)
The IASB issued amendments to IAS 1 and IAS 8 to align the definition of ‘material’ across the standards and to clarify certain aspects of the definition and to include the concept of ‘obscuring information’. The amendments are intended to improve the understanding of the existing requirements rather than to significantly impact LCMC’s materiality judgments.

5. TRADE AND OTHER RECEIVABLES

As at December 31 (thousands of Canadian dollars)	**2019**	2018
Receivables due from related parties	**13,535**	28,076
HST receivable	**4,085**	3,126
	17,620	31,202

6. PREPAYMENTS

Prepayments consists primary of a short term advance to a contractor in relation to services provided for Phase 1 of the Lower Churchill Project. Subsequently, upon receipt of such services, LCMC passes the costs to Muskrat Falls, Labrador Transco, and LIL LP as part of the project development and management functions LCMC provides.

7. RIGHT-OF-USE ASSETS

LCMC leases various properties with fixed periods of less than two years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Extension and termination options are included in a number of property leases across LCMC. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by LCMC and not by the respective lessor.

(thousands of Canadian dollars)	Property
Cost	
Balance at January 1, 2019	2,672
Balance at December 31, 2019	**2,672**
Depreciation	
Balance at January 1, 2019	-
Depreciation	1,409
Balance at December 31, 2019	**1,409**
Carrying value	
Balance at January 1, 2019	2,672
Balance at December 31, 2019	**1,263**

8. TRADE AND OTHER PAYABLES

As at December 31 (thousands of Canadian dollars)	**2019**	2018
Trade payables	**12,165**	15,815
Payables due to related parties	**4,037**	17,223
HST payable	**1,195**	1,790
	17,397	34,828

9. LEASE LIABILITIES

As at December 31 (thousands of Canadian dollars)	**2019**
Maturity analysis – contractual undiscounted cash flows	
Less than one year	1,298
Total undiscounted lease liabilities	**1,298**
Lease liabilities included in the Statement of Financial Position	
Current lease liabilities	1,280
Total lease liabilities	**1,280**

Interest on lease liabilities, expenses relating to short-term and low-value leases and variable lease payments not included in the measurement of leases are capitalized within property, plant and equipment (subsequently allocated to Muskrat Falls, Labrador Transco and LIL LIP) as permitted by *IAS 16 – Property, Plant and Equipment*.

The total cash outflow for leases for the year ended December 31, 2019 amounts to $2.0 million.

10. SHARE CAPITAL

As at December 31 (thousands of Canadian dollars)	**2019**	2018
Common shares without nominal or par value		
Authorized - unlimited		
Issued - fully paid and outstanding - 100	**1**	1

11. NET FINANCE INCOME

For the year ended December 31 (thousands of Canadian dollars)	**2019**	2018
Finance income		
Bank interest	**249**	170
Finance expense		
Bank interest	**-**	3
Bank charges	**6**	6
Net finance income	**243**	161

12. OPERATING COSTS

For the year ended December 31 (thousands of Canadian dollars)	**2019**	2018
Professional services	**22**	12
Cost recoveries	**6**	10
	28	22

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

13.1 Fair Value

The estimated fair values of financial instruments as at December 31, 2019 and December 31, 2018 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.

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, 2019 and December 31, 2018.

As at December 31, 2019 and December 31, 2018, the Company did not have any Level 2 or Level 3 instruments. The fair values of cash, trade and other receivables and trade and other payables approximate their carrying values due to their short-term maturity.

13.2 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. 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.

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 (2018 - \$50.0 million) unsecured revolving credit facility with its parent, Nalcor. As at December 31, 2019, there was no balance outstanding (2018 - \$nil) on this credit facility. The facility is available by way of Prime Rate Advances.

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.

14. 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 (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
Muskrat 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

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

(a) LCMC has a $50.0 million (2018 - $50.0 million) unsecured revolving credit facility with its parent, Nalcor. As at December 31, 2019, there was no balance outstanding (2018 - $nil) on this credit facility.

(b) As at December 31, 2019, LCMC has related party payables totaling $4.0 million (2018 - $17.2 million) with Nalcor and Hydro and related party receivables totaling $13.5 million (2018 - $28.1 million) with Muskrat Falls, LIL LP, Labrador Transco and LIL Opco. These payables and receivables consist of various intercompany operating and construction costs.

(c) For the year ended December 31, 2019, LCMC had revenue of $0.4 million (2018 - $0.4 million) for providing project development and management functions for Muskrat Falls, Labrador Transco and LIL LP.

(d) For the year ended December 31, 2019, LCMC was charged $20.9 million (2018 - $29.7 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.

15. 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 will not materially affect its financial position.

(b) Outstanding commitments for capital projects total approximately $78.0 million as at December 31, 2019 (2018 - $97.5 million).

16. CAPITAL MANAGEMENT

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.

17. SUPPLEMENTARY CASH FLOW INFORMATION

For the year ended December 31 (thousands of Canadian dollars)	**2019**	2018
Trade and other receivables	**15,045**	(2,271)
Prepayments	**(719)**	1,259
Trade and other payables	**(17,431)**	2,032
Changes in non-cash working capital balances	**(3,105)**	1,020