

LOWER CHURCHILL MANAGEMENT CORPORATION
CONDENSED INTERIM FINANCIAL STATEMENTS
September 30, 2020
(Unaudited)

LOWER CHURCHILL MANAGEMENT CORPORATION
STATEMENT OF FINANCIAL POSITION
(Unaudited)

September 30 December 31
2020 2019

As at (thousands of Canadian dollars)

ASSETS

Current assets

Cash	4,256	1,616
Trade and other receivables	20,030	17,620
Prepayments	802	721
Total current assets	25,088	19,957

Non-current assets

Right-of-use assets	298	1,263
Total assets	25,386	21,220

LIABILITIES AND EQUITY

Current liabilities

Trade and other payables	22,223	17,397
Current portion of lease liabilities	305	1,280
Total liabilities	22,528	18,677

Shareholder's equity

Share capital	1	1
Retained earnings	2,857	2,542
Total equity	2,858	2,543
Total liabilities and equity	25,386	21,220

Commitments and contingencies (Note 8)

See accompanying notes

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

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Nine months ended	
		2020	2019	2020	2019
Revenue					
Other revenue	7	90	90	270	270
Net finance income	4	7	89	72	204
Total revenue		97	179	342	474
Expenses					
Operating costs	5	8	8	26	24
Unrealized foreign exchange loss (gain)		-	-	1	(1)
Total expenses		8	8	27	23
Total profit and comprehensive income for the period		89	171	315	451

See accompanying notes

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

<i>(thousands of Canadian dollars)</i>	Share Capital	Retained Earnings	Total
Balance at January 1, 2020	1	2,542	2,543
Total profit and comprehensive income for the period	-	315	315
Balance at September 30, 2020	1	2,857	2,858
Balance at January 1, 2019	1	1,938	1,939
Total profit and comprehensive income for the period	-	451	451
Balance at September 30, 2019	1	2,389	2,390

LOWER CHURCHILL MANAGEMENT CORPORATION
STATEMENT OF CASH FLOWS
(Unaudited)

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Nine months ended	
		2020	2019	2020	2019
Operating activities					
Profit for the period		89	171	315	451
Adjustments to reconcile profit to cash (used in) provided from operating activities:					
Finance income	4	(8)	(90)	(76)	(208)
Finance expense	4	1	1	4	4
		82	82	243	247
Changes in non-cash working capital balances	9	(2,041)	(1,002)	3,317	4,672
Interest received		9	90	76	208
Interest paid		(1)	(1)	(4)	(4)
Net cash (used in) provided from operating activities		(1,951)	(831)	3,632	5,123
Financing activity					
Repayment of lease liabilities		(306)	(362)	(992)	(1,085)
Net cash used in financing activity		(306)	(362)	(992)	(1,085)
Net (decrease) increase in cash		(2,257)	(1,193)	2,640	4,038
Cash, beginning of the period		6,513	10,794	1,616	5,563
Cash, end of the period		4,256	9,601	4,256	9,601

See accompanying notes

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

1. DESCRIPTION OF BUSINESS

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

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

In addition, LCMC acts as the administrator on behalf of the Trustee for the Muskrat Falls/Labrador Transmission Assets Funding Trust, the Labrador-Island Link Funding Trust and the LIL Construction Project Trust (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

Statement of Compliance and Basis of Measurement

These condensed interim financial statements have been prepared in accordance with *International Accounting Standard 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, 2019.

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 financial statements on November 13, 2020.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the condensed interim 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. Significant accounting judgments, estimates and assumptions used in the preparation of the condensed interim financial statements are described in the Company's annual audited financial statements for the year ended December 31, 2019.

The World Health Organization declared the Coronavirus disease (COVID-19) outbreak a Public Health Emergency of International Concern on January 30, 2020 and a pandemic on March 11, 2020. In order to mitigate the spread of COVID-19 there have been global restrictions on travel, quarantines, self-isolation, social and physical distancing and forced closure of certain types of public places and non-essential businesses.

COVID-19 is an evolving situation that may have widespread implications for the Company environment, operations and financial results. Management cannot reasonably estimate the duration and magnitude of the COVID-19 impact on the economy and effect on the Company at this time. For the period ended September 30, 2020, COVID-19 did not have a significant impact on the Company's results of operations, financial position or cash flow. At this time Management cannot reasonably estimate the duration and magnitude of the COVID-19 impact on the economy and future effect on the Company.

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

4. NET FINANCE INCOME

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2020	2019	2020	2019
Finance income				
Bank interest	8	90	75	208
Other interest	-	-	1	-
Finance expense				
Bank charges	1	1	4	4
Net finance income	7	89	72	204

5. OPERATING COSTS

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2020	2019	2020	2019
Professional services	6	6	17	17
Cost recoveries	2	2	8	7
Salaries and benefits	-	-	1	-
	8	8	26	24

6. FINANCIAL INSTRUMENTS

Fair Value

The estimated fair values of financial instruments as at September 30, 2020 and December 31, 2019 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 period ended September 30, 2020 and the year ended December 31, 2019.

As at September 30, 2020 and December 31, 2019, 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.

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

7. 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) As at September 30, 2020, LCMC has a \$50.0 million (December 31, 2019 - \$50.0 million) unsecured revolving credit facility with its parent, Nalcor. As at September 30, 2020, there was no balance outstanding (December 31, 2019 - \$nil) on this credit facility.
- (b) As at September 30, 2020, LCMC has related party payables totaling \$10.6 million (December 31, 2019 - \$4.0 million) with Nalcor and Hydro and related party receivables totaling \$17.8 million (December 31, 2019 - \$13.5 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 period ended September 30, 2020, LCMC had revenue of \$0.3 million (September 30, 2019 - \$0.3 million) for providing project development and management functions for Muskrat Falls, Labrador Transco and LIL LP.
- (d) For the period ended September 30, 2020, LCMC was charged \$8.2 million (September 30, 2019 - \$16.5 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.

8. 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 \$44.1 million as at September 30, 2020 (December 31, 2019 - \$78.0 million).

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

9. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2020	2019	2020	2019
Trade and other receivables	(5,869)	6,849	(1,428)	22,397
Prepayments	167	927	(81)	-
Trade and other payables	3,661	(8,778)	4,826	(17,725)
Changes in non-cash working capital balances	(2,041)	(1,002)	3,317	4,672