

**LOWER CHURCHILL MANAGEMENT CORPORATION**  
**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**September 30, 2021**  
**(Unaudited)**

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

**September 30**    December 31  
**2021**                    2020

*As at (thousands of Canadian dollars)*

**ASSETS**

Current assets

Cash	4,071	2,372
Trade and other receivables	7,930	22,203
Prepayments	327	642
<b>Total assets</b>	<b>12,328</b>	<b>25,217</b>

**LIABILITIES AND EQUITY**

Current liabilities

Trade and other payables	9,080	22,237
<b>Total liabilities</b>	<b>9,080</b>	<b>22,237</b>

Shareholder's equity

Share capital	1	1
Retained earnings	3,247	2,979
<b>Total equity</b>	<b>3,248</b>	<b>2,980</b>
<b>Total liabilities and equity</b>	<b>12,328</b>	<b>25,217</b>

Commitments and contingencies (Note 7)

*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	<b>Three months ended</b>		<b>Nine months ended</b>	
		<b>2021</b>	2020	<b>2021</b>	2020
Revenue					
Other revenue	6	<b>90</b>	90	<b>270</b>	270
Net finance income	3	<b>9</b>	7	<b>23</b>	72
<b>Total revenue</b>		<b>99</b>	97	<b>293</b>	342
Expenses					
Operating costs	4	<b>8</b>	8	<b>25</b>	26
Unrealized foreign exchange loss		<b>1</b>	-	-	1
<b>Total expenses</b>		<b>9</b>	8	<b>25</b>	27
<b>Total profit and comprehensive income for the period</b>		<b>90</b>	89	<b>268</b>	315

*See accompanying notes*

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

<i>(thousands of Canadian dollars)</i>	Share Capital	Retained Earnings	Total
<b>Balance at January 1, 2021</b>	<b>1</b>	<b>2,979</b>	<b>2,980</b>
<b>Total profit and comprehensive income for the period</b>	<b>-</b>	<b>268</b>	<b>268</b>
<b>Balance at September 30, 2021</b>	<b>1</b>	<b>3,247</b>	<b>3,248</b>
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

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

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Notes	<b>Three months ended</b>		<b>Nine months ended</b>	
		<b>2021</b>	2020	<b>2021</b>	2020
Operating activities					
Profit for the period		<b>90</b>	89	<b>268</b>	315
Adjustments to reconcile profit to cash provided from (used in) operating activities:					
Finance income	3	<b>(10)</b>	(8)	<b>(27)</b>	(76)
Finance expense	3	<b>1</b>	1	<b>4</b>	4
		<b>81</b>	82	<b>245</b>	243
Changes in non-cash working capital balances	8	<b>1,258</b>	(2,041)	<b>1,431</b>	3,317
Interest received		<b>10</b>	9	<b>27</b>	76
Interest paid		<b>(1)</b>	(1)	<b>(4)</b>	(4)
<b>Net cash provided from (used in) operating activities</b>		<b>1,348</b>	(1,951)	<b>1,699</b>	3,632
Financing activity					
Repayment of lease liabilities		-	(306)	-	(992)
<b>Net cash used in financing activity</b>		-	(306)	-	(992)
Net increase (decrease) in cash		<b>1,348</b>	(2,257)	<b>1,699</b>	2,640
Cash, beginning of the period		<b>2,723</b>	6,513	<b>2,372</b>	1,616
<b>Cash, end of the period</b>		<b>4,071</b>	4,256	<b>4,071</b>	4,256

*See accompanying notes*

**LOWER CHURCHILL MANAGEMENT CORPORATION**  
**NOTES TO THE 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, 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, 2020.

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 condensed interim financial statements on November 12, 2021.

**3. NET FINANCE INCOME**

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>2021</b>	2020	<b>2021</b>	2020
Finance income				
Bank interest	<b>10</b>	8	<b>26</b>	75
Other interest	-	-	<b>1</b>	1
Finance expense				
Bank charges	<b>1</b>	1	<b>4</b>	4
Net finance income	<b>9</b>	7	<b>23</b>	72

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

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**4. OPERATING COSTS**

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>2021</b>	2020	<b>2021</b>	2020
Professional services	<b>6</b>	6	<b>17</b>	17
Cost recoveries	<b>2</b>	2	<b>8</b>	8
Salaries and benefits	-	-	-	1
	<b>8</b>	8	<b>25</b>	26

**5. FINANCIAL INSTRUMENTS**

**Fair Value**

The estimated fair values of financial instruments as at September 30, 2021 and December 31, 2020 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, 2021 and the year ended December 31, 2020.

As at September 30, 2021 and December 31, 2020, 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.

**6. 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:

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

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, 2021, LCMC has a \$50.0 million (December 31, 2020 - \$50.0 million) unsecured revolving credit facility with its parent, Nalcor. As at September 30, 2021, there was no balance outstanding (December 31, 2020 - \$nil) on this credit facility.
- (b) As at September 30, 2021, LCMC has related party payables totaling \$2.7 million (December 31, 2020 - \$12.0 million) with Nalcor and Hydro and related party receivables totaling \$7.0 million (December 31, 2020 - \$20.1 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 period ended September 30, 2021, LCMC had revenue of \$0.3 million (September 30, 2020 - \$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, 2021, LCMC was charged \$5.7 million (September 30, 2020 - \$8.2 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.

**7. COMMITMENTS AND CONTINGENCIES**

Outstanding commitments for capital projects total approximately \$14.1 million as at September 30, 2021 (December 31, 2020 - \$40.7 million).

**8. SUPPLEMENTARY CASH FLOW INFORMATION**

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>2021</b>	2020	<b>2021</b>	2020
Trade and other receivables	<b>7,123</b>	(5,869)	<b>14,273</b>	(1,428)
Prepayments	<b>(327)</b>	167	<b>315</b>	(81)
Trade and other payables	<b>(5,538)</b>	3,661	<b>(13,157)</b>	4,826
Changes in non-cash working capital balances	<b>1,258</b>	(2,041)	<b>1,431</b>	3,317