

LOWER CHURCHILL MANAGEMENT CORPORATION
CONDENSED INTERIM FINANCIAL STATEMENTS
March 31, 2023
(Unaudited)

LOWER CHURCHILL MANAGEMENT CORPORATION
STATEMENT OF FINANCIAL POSITION
(Unaudited)

| <i>As at (thousands of Canadian dollars)</i> | Notes | March 31 2023 | December 31 2022 |
|--|-------|--------------------------|---------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash | | 4,747 | 4,503 |
| Trade and other receivables | 3 | 615 | 1,561 |
| Total assets | | 5,362 | 6,064 |
| LIABILITIES AND EQUITY | | | |
| Current liabilities | | | |
| Trade and other payables | 4 | 1,419 | 2,254 |
| Total liabilities | | 1,419 | 2,254 |
| Shareholder's equity | | | |
| Share capital | | 1 | 1 |
| Retained earnings | | 3,942 | 3,809 |
| Total equity | | 3,943 | 3,810 |
| Total liabilities and equity | | 5,362 | 6,064 |

Commitments and contingencies (Note 9)

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 | Three months ended | |
|--|-------|--------------------|-----------|
| | | 2023 | 2022 |
| Revenue | | | |
| Other revenue | 8 | 90 | 90 |
| Net finance income | 5 | 51 | 6 |
| Total revenue | | 141 | 96 |
| Expenses | | | |
| Operating costs | 6 | 8 | 8 |
| Total expenses | | 8 | 8 |
| Total profit and comprehensive income for the period | | 133 | 88 |

See accompanying notes

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

(thousands of Canadian dollars)

| | Share Capital | Retained Earnings | Total |
|---|--------------------------|------------------------------|--------------|
| Balance at January 1, 2023 | 1 | 3,809 | 3,810 |
| Total profit and comprehensive income for the period | - | 133 | 133 |
| Balance at March 31, 2023 | 1 | 3,942 | 3,943 |
| Balance at January 1, 2022 | 1 | 3,365 | 3,366 |
| Total profit and comprehensive income for the period | - | 88 | 88 |
| Balance at March 31, 2022 | 1 | 3,453 | 3,454 |

See accompanying notes

LOWER CHURCHILL MANAGEMENT CORPORATION
STATEMENT OF CASH FLOWS
(Unaudited)

| <i>For the period ended March 31 (thousands of Canadian dollars)</i> | Notes | Three months ended | |
|---|-------|---------------------------|---------|
| | | 2023 | 2022 |
| Operating activities | | | |
| Profit for the period | | 133 | 88 |
| Adjustments to reconcile profit to cash provided from (used in) operating activities: | | | |
| Finance income | 5 | (52) | (8) |
| Finance expense | 5 | 1 | 2 |
| | | 82 | 82 |
| Changes in non-cash working capital balances | 10 | 111 | (1,555) |
| Interest received | | 52 | 8 |
| Interest paid | | (1) | (2) |
| Net cash provided from (used in) operating activities | | 244 | (1,467) |
| Net increase (decrease) in cash | | 244 | (1,467) |
| Cash, beginning of the period | | 4,503 | 7,649 |
| Cash, end of the period | | 4,747 | 6,182 |

See accompanying notes

LOWER CHURCHILL MANAGEMENT CORPORATION
NOTES TO THE 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 (LCP) 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 \$8.9 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, 2022.

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 May 15, 2023.

3. TRADE AND OTHER RECEIVABLES

| | March 31 | December 31 |
|--|-----------------|-------------|
| <i>As at (thousands of Canadian dollars)</i> | 2023 | 2022 |
| Due from related parties | 460 | 1,437 |
| HST receivable | 155 | 124 |
| | 615 | 1,561 |

4. TRADE AND OTHER PAYABLES

| | March 31 | December 31 |
|--|-----------------|-------------|
| <i>As at (thousands of Canadian dollars)</i> | 2023 | 2022 |
| Trade payables and accruals | 632 | 1,351 |
| Due to related parties | 574 | 433 |
| HST payable | 213 | 470 |
| | 1,419 | 2,254 |

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

5. NET FINANCE INCOME

| | Three months ended | |
|--|---------------------------|------|
| <i>For the period ended March 31 (thousands of Canadian dollars)</i> | 2023 | 2022 |
| Finance income | | |
| Bank interest | 52 | 8 |
| Finance expense | | |
| Bank charges | 1 | 2 |
| Net finance income | 51 | 6 |

6. OPERATING COSTS

| | Three months ended | |
|--|---------------------------|------|
| <i>For the period ended March 31 (thousands of Canadian dollars)</i> | 2023 | 2022 |
| Professional services | 5 | 6 |
| Other operating costs | 3 | 2 |
| | 8 | 8 |

7. FINANCIAL INSTRUMENTS

Fair Value

The estimated fair values of financial instruments as at March 31, 2023 and December 31, 2022 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 March 31, 2023 and the year ended December 31, 2022.

As at March 31, 2023 and December 31, 2022, 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 THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

8. RELATED PARTY TRANSACTIONS

LCMC enters into various transactions with its parent and other related parties. Unless otherwise noted, 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. Outstanding balances due to or from related parties are non-interest bearing with settlement within 30 days, unless otherwise stated.

Related parties with which LCMC transacts are as follows:

| Related Party | Relationship |
|--|---|
| Nalcor | 100% shareholder of LCMC |
| Churchill Falls | Joint arrangement of Hydro |
| 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 (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 |

Significant related party transactions, which are not otherwise disclosed separately in the condensed interim financial statements, are summarized below:

| <i>As at (thousands of Canadian dollars)</i> | March 31 2023 | December 31 2022 |
|--|------------------------------------|---------------------|
| Trade and other receivables: | | |
| Other related parties | 460 | 1,437 |
| Trade and other payables: | | |
| Parent | 264 | 433 |
| Other related parties | 310 | - |
| | | |
| <i>For the period ended March 31 (thousands of Canadian Dollars)</i> | Three months ended 2023 | 2022 |
| Other revenue: | | |
| Other related parties | 90 | 90 |
| Operating costs: | | |
| Parent | (a) 442 | 280 |
| Other related parties | (a) 82 | 201 |

- (a) The operating costs relate to intercompany salary costs, administrative services and power purchases for the LCP. LCMC subsequently recovers these costs from Muskrat Falls, Labrador Transco, and LIL LP as part of the project development and management functions LCMC provides to these companies.

9. COMMITMENTS AND CONTINGENCIES

LCMC's outstanding commitments for capital projects relating to the LCP Project total approximately \$0.2 million as at March 31, 2023 (December 31, 2022 - \$2.0 million). These costs are subsequently recovered from Muskrat Falls, Labrador Transco and LIL LP as part of the project development and management functions LCMC provides to these companies.

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

10. SUPPLEMENTARY CASH FLOW INFORMATION

| <i>For the period ended March 31 (thousands of Canadian dollars)</i> | Three months ended | |
|--|---------------------------|-------------|
| | 2023 | 2022 |
| Trade and other receivables | 946 | 991 |
| Prepayments | - | 140 |
| Trade and other payables | (835) | (2,686) |
| Changes in non-cash working capital balances | 111 | (1,555) |