

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**CONDENSED INTERIM FINANCIAL STATEMENTS**

**June 30, 2021**

**(Unaudited)**

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
(Unaudited)

<i>As at (thousands of Canadian dollars)</i>	Notes	June 30 2021	December 31 2020
<b>ASSETS</b>			
Current assets			
Cash		103,321	97,073
Restricted cash		274	274
Trade and other receivables	3	36,572	21,050
Inventories		18,391	18,220
Current portion of reserve fund		9,313	4,208
Prepayments		1,089	3,095
<b>Total current assets</b>		<b>168,960</b>	<b>143,920</b>
Non-current assets			
Property, plant and equipment	4	821,103	801,200
Intangible assets		593	661
Investment in joint venture		1,956	1,976
Reserve fund		48,262	54,279
<b>Total assets</b>		<b>1,040,874</b>	<b>1,002,036</b>
<b>LIABILITIES AND EQUITY</b>			
Current liabilities			
Trade and other payables	5	38,935	48,668
Rental and royalty payable		5,962	6,546
Current portion of deferred contributions		690	690
<b>Total current liabilities</b>		<b>45,587</b>	<b>55,904</b>
Non-current liabilities			
Deferred contributions		8,183	8,533
Decommissioning liabilities		1,205	1,000
Employee future benefits		37,930	36,899
<b>Total liabilities</b>		<b>92,905</b>	<b>102,336</b>
Shareholders' equity			
Share capital		82,900	82,900
Contributed capital		8,195	8,195
Reserves		(6,022)	(5,111)
Retained earnings		862,896	813,716
<b>Total equity</b>		<b>947,969</b>	<b>899,700</b>
<b>Total liabilities and equity</b>		<b>1,040,874</b>	<b>1,002,036</b>

Commitments and contingencies (Note 13)

*See accompanying notes*

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**STATEMENT OF PROFIT AND COMPREHENSIVE INCOME**  
**(Unaudited)**

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Six months ended	
		2021	2020	2021	2020
Energy sales		<b>26,559</b>	26,402	<b>53,093</b>	53,092
Guaranteed winter availability		-	-	<b>22,881</b>	22,981
Net finance income	7	<b>513</b>	386	<b>959</b>	1,014
Other revenue	8	<b>24,465</b>	169	<b>24,639</b>	345
Revenue		<b>51,537</b>	26,957	<b>101,572</b>	77,432
Operating costs	9	<b>13,222</b>	12,488	<b>27,354</b>	26,217
Depreciation and amortization		<b>7,544</b>	7,851	<b>15,003</b>	15,353
Other expense	10	<b>2,952</b>	1,032	<b>6,033</b>	4,178
Share of loss of joint venture		<b>8</b>	3	<b>20</b>	3
Expenses		<b>23,726</b>	21,374	<b>48,410</b>	45,751
Profit for the period		<b>27,811</b>	5,583	<b>53,162</b>	31,681
Other comprehensive (loss) income for the period					
Net fair value (loss) gain on reserve fund		<b>(224)</b>	906	<b>(911)</b>	1,386
Other comprehensive (loss) income for the period		<b>(224)</b>	906	<b>(911)</b>	1,386
Total comprehensive income for the period		<b>27,587</b>	6,489	<b>52,251</b>	33,067

*See accompanying notes*

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
(Unaudited)

<i>(thousands of Canadian dollars)</i>	Note	Share Capital	Contributed Capital	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
<b>Balance at January 1, 2021</b>		<b>82,900</b>	<b>8,195</b>	<b>2,238</b>	<b>(7,349)</b>	<b>813,716</b>	<b>899,700</b>
<b>Profit for the period</b>		-	-	-	-	<b>53,162</b>	<b>53,162</b>
<b>Other comprehensive loss</b>		-	-	<b>(911)</b>	-	-	<b>(911)</b>
<b>Total comprehensive (loss) income for the period</b>		-	-	<b>(911)</b>	-	<b>53,162</b>	<b>52,251</b>
<b>Preferred dividends</b>	<b>6</b>	-	-	-	-	<b>(3,982)</b>	<b>(3,982)</b>
<b>Balance at June 30, 2021</b>		<b>82,900</b>	<b>8,195</b>	<b>1,327</b>	<b>(7,349)</b>	<b>862,896</b>	<b>947,969</b>
Balance at January 1, 2020		82,900	8,195	562	(7,078)	772,718	857,297
Profit for the period		-	-	-	-	31,681	31,681
Other comprehensive income		-	-	1,386	-	-	1,386
Total comprehensive income for the period		-	-	1,386	-	31,681	33,067
Preferred dividends	6	-	-	-	-	(4,165)	(4,165)
Balance at June 30, 2020		82,900	8,195	1,948	(7,078)	800,234	886,199

See accompanying note

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**STATEMENT OF CASH FLOWS**  
(Unaudited)

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Six months ended	
		2021	2020	2021	2020
<b>Operating activities</b>					
Profit for the period		<b>27,811</b>	5,583	<b>53,162</b>	31,681
Adjustments to reconcile profit to cash provided from operating activities:					
Depreciation and amortization		<b>7,544</b>	7,851	<b>15,003</b>	15,353
Amortization of deferred contributions		<b>(175)</b>	(173)	<b>(350)</b>	(345)
Employee benefits		<b>426</b>	449	<b>1,031</b>	808
Loss on disposal of property, plant and equipment	10	<b>16</b>	63	<b>59</b>	123
Share of loss of joint venture		<b>8</b>	3	<b>20</b>	3
Finance income	7	<b>(523)</b>	(400)	<b>(978)</b>	(1,042)
Finance expense	7	<b>10</b>	14	<b>19</b>	28
		<b>35,117</b>	13,390	<b>67,966</b>	46,609
Change in non-cash working capital balances	14	<b>(12,139)</b>	17,628	<b>(33,507)</b>	42
Interest received		<b>506</b>	440	<b>983</b>	1,044
Interest paid		<b>(8)</b>	(6)	<b>(14)</b>	(12)
<b>Net cash provided from operating activities</b>		<b>23,476</b>	31,452	<b>35,428</b>	47,683
<b>Investing activities</b>					
Additions to property, plant and equipment	4	<b>(26,938)</b>	(6,348)	<b>(34,684)</b>	(12,742)
Addition to intangible assets		<b>(15)</b>	(117)	<b>(13)</b>	(122)
Changes in non-cash working capital balances	14	<b>15,251</b>	(3,040)	<b>9,499</b>	(4,876)
<b>Net cash used in investing activities</b>		<b>(11,702)</b>	(9,505)	<b>(25,198)</b>	(17,740)
<b>Financing activities</b>					
Increase in restricted cash		-	(85)	-	(85)
Preferred dividends	6	<b>(1,641)</b>	(1,732)	<b>(3,982)</b>	(4,165)
<b>Net cash used in financing activities</b>		<b>(1,641)</b>	(1,817)	<b>(3,982)</b>	(4,250)
Net increase in cash		<b>10,133</b>	20,130	<b>6,248</b>	25,693
Cash, beginning of the period		<b>93,188</b>	94,569	<b>97,073</b>	89,006
Cash, end of the period		<b>103,321</b>	114,699	<b>103,321</b>	114,699

See accompanying notes

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)**

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**1. DESCRIPTION OF BUSINESS**

Churchill Falls (Labrador) Corporation Limited (Churchill Falls) is incorporated under the laws of Canada and operates a hydroelectric generating plant and related transmission facilities in Labrador with a rated capacity of 5,428 megawatts. Churchill Falls operates under rights leased from the Province of Newfoundland and Labrador (the Province) for 99 years, which are renewable for a further term of 99 years under the Churchill Falls (Labrador) Corporation Limited (Lease) Act, 1961 as amended, covering the water power potential of the Upper Churchill watershed. Energy from Churchill Falls is provided to two customers: Hydro-Québec and Newfoundland and Labrador Hydro (Hydro). Churchill Falls is 65.8% owned by Hydro, whose parent company is Nalcor Energy (Nalcor). The remaining 34.2% is owned by Hydro-Québec. Effective June 18, 1999, the two shareholders of Churchill Falls, Hydro and Hydro-Québec, entered into a Shareholders' Agreement which provided, among other matters, that certain of the strategic operating, financing and investing policies of Churchill Falls be subject to joint approval by representatives of Hydro and Hydro-Québec. The head and corporate office for Churchill Falls is located at 500 Columbus Drive, St. John's, Newfoundland and Labrador, A1B 3T5.

**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 Churchill Falls' 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 except for financial assets at fair value through other comprehensive income (FVTOCI) which have been measured at fair value. The condensed interim financial statements are presented in Canadian dollars and all values are rounded to the nearest thousand, except when otherwise noted. The condensed interim financial statements were approved by Churchill Falls' Audit Committee on August 11, 2021.

**3. TRADE AND OTHER RECEIVABLES**

	<b>June 30</b>	December 31
	<b>2021</b>	2020
<i>As at (thousands of Canadian dollars)</i>		
Due from related parties	<b>34,478</b>	18,290
Other receivables	<b>2,094</b>	2,760
	<b>36,572</b>	21,050

Other receivables include HST and other miscellaneous amounts.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)**

**4. PROPERTY, PLANT AND EQUIPMENT**

<i>(thousands of Canadian dollars)</i>	Hydroelectric Generation Plant	Transmission and Distribution	Service Facilities and Other	Construction in Progress	Total
<b>Cost</b>					
Balance at January 1, 2020	889,471	322,536	238,315	21,699	1,472,021
Additions	-	-	-	63,414	63,414
Decommissioning liabilities and revisions	-	(280)	-	-	(280)
Other adjustments	-	(622)	(32)	-	(654)
Disposals	(474)	(3,729)	(348)	-	(4,551)
Transfers	3,800	23,895	8,608	(36,303)	-
<b>Balance at December 31, 2020</b>	<b>892,797</b>	<b>341,800</b>	<b>246,543</b>	<b>48,810</b>	<b>1,529,950</b>
<b>Additions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>34,684</b>	<b>34,684</b>
<b>Decommissioning liabilities and revisions</b>	<b>-</b>	<b>200</b>	<b>-</b>	<b>-</b>	<b>200</b>
<b>Disposals</b>	<b>(156)</b>	<b>-</b>	<b>(138)</b>	<b>-</b>	<b>(294)</b>
<b>Transfers</b>	<b>286</b>	<b>-</b>	<b>187</b>	<b>(473)</b>	<b>-</b>
<b>Balance at June 30, 2021</b>	<b>892,927</b>	<b>342,000</b>	<b>246,592</b>	<b>83,021</b>	<b>1,564,540</b>
<b>Depreciation</b>					
Balance at January 1, 2020	450,777	141,609	108,841	-	701,227
Depreciation	14,191	6,585	9,538	-	30,314
Disposals	(393)	(2,116)	(282)	-	(2,791)
<b>Balance at December 31, 2020</b>	<b>464,575</b>	<b>146,078</b>	<b>118,097</b>	<b>-</b>	<b>728,750</b>
<b>Depreciation</b>	<b>7,130</b>	<b>3,338</b>	<b>4,454</b>	<b>-</b>	<b>14,922</b>
<b>Disposals</b>	<b>(113)</b>	<b>-</b>	<b>(122)</b>	<b>-</b>	<b>(235)</b>
<b>Balance at June 30, 2021</b>	<b>471,592</b>	<b>149,416</b>	<b>122,429</b>	<b>-</b>	<b>743,437</b>
<b>Carrying value</b>					
Balance at January 1, 2020	438,694	180,927	129,474	21,699	770,794
Balance at December 31, 2020	428,222	195,722	128,446	48,810	801,200
<b>Balance at June 30, 2021</b>	<b>421,335</b>	<b>192,584</b>	<b>124,163</b>	<b>83,021</b>	<b>821,103</b>

**5. TRADE AND OTHER PAYABLES**

<i>As at (thousands of Canadian dollars)</i>	<b>June 30 2021</b>	December 31 2020
Trade payables and accruals	<b>36,798</b>	45,143
Payables due to related parties	<b>704</b>	1,107
Other payables	<b>1,433</b>	2,418
	<b>38,935</b>	48,668

Other payables include HST and other miscellaneous amounts.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)**

**6. SHAREHOLDERS' EQUITY**

**Dividends Paid and Proposed**

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>2021</b>	2020	<b>2021</b>	2020
Declared during the period				
Final preferred dividend for prior year	-	-	<b>669</b>	700
Interim preferred dividend for current period	<b>1,641</b>	1,732	<b>3,313</b>	3,465
	<b>1,641</b>	1,732	<b>3,982</b>	4,165

During 2021, Churchill Falls did not pay any common dividends (2020 - \$nil).

**7. NET FINANCE INCOME**

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>2021</b>	2020	<b>2021</b>	2020
Finance income				
Interest on reserve fund	<b>310</b>	142	<b>567</b>	284
Other interest income	<b>213</b>	258	<b>411</b>	758
	<b>523</b>	400	<b>978</b>	1,042
Finance expense				
Accretion of decommissioning liability	<b>2</b>	8	<b>5</b>	16
Other interest expense	<b>8</b>	6	<b>14</b>	12
	<b>10</b>	14	<b>19</b>	28
Net finance income	<b>513</b>	386	<b>959</b>	1,014

**8. OTHER REVENUE**

In 2019, Churchill Falls received judgment from the Québec Court of Appeal regarding a Motion for Declaratory Judgment filed by Hydro-Québec, relating to the interpretation of the 1969 Power Contract between Churchill Falls and Hydro-Québec and the associated Renewal Contract. In August 2021, Churchill Falls and Hydro-Québec reached a Settlement Agreement regarding the Declaratory Judgment case surrounding the interpretation of the Renewed Power Contract, which came into effect September 1, 2016, and alignment on a final Annual Energy Base, which establishes Hydro-Québec's annual energy entitlement for the term of the contract.

**9. OPERATING COSTS**

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>2021</b>	2020	<b>2021</b>	2020
Salaries and benefits	<b>9,581</b>	9,090	<b>19,918</b>	19,401
Maintenance and materials	<b>2,086</b>	1,498	<b>3,802</b>	2,804
Insurance	<b>1,047</b>	793	<b>2,081</b>	1,631
Professional services	<b>584</b>	369	<b>1,164</b>	910
Other operating costs	<b>(76)</b>	738	<b>389</b>	1,471
	<b>13,222</b>	12,488	<b>27,354</b>	26,217

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)**

**10. OTHER EXPENSE**

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Rental and royalty	<b>2,938</b>	957	<b>5,976</b>	4,041
Realized foreign exchange (gain) loss	<b>(1)</b>	14	<b>(1)</b>	13
Unrealized foreign exchange gain	-	(2)	-	(2)
Loss on disposal of property, plant and equipment	<b>16</b>	63	<b>59</b>	123
Other	-	-	-	3
	<b>2,953</b>	1,032	<b>6,034</b>	4,178

**11. FINANCIAL INSTRUMENTS**

**11.1 Fair Value**

The estimated fair values of financial instruments as at June 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 below are not necessarily indicative of the amounts that Churchill Falls might receive or incur in actual market transactions.

As a significant number of Churchill Falls' assets and liabilities do not meet the definition of a financial instrument, the fair value estimates below do not reflect the fair value of Churchill Falls 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, Churchill Falls 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 during the period ended June 30, 2021 and year ended December 31, 2020.

As at June 30, 2021 and December 31, 2020, Churchill Falls did not have any Level 3 instruments.

	<b>Level</b>	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>
<i>(thousands of Canadian dollars)</i>		<b>June 30, 2021</b>		<b>December 31, 2020</b>	
Financial assets					
Reserve fund	<b>2</b>	<b>57,575</b>	<b>57,575</b>	58,487	58,487

The fair values of cash, restricted cash, trade and other receivables, trade and other payables, and rental and royalty payable approximate their carrying values due to their short-term maturity.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)**

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The fair values of Level 2 financial instruments are determined using quoted prices in active markets, which in some cases are adjusted for factors specific to the asset or liability. Level 2 fair values of other risk management assets and liabilities are determined using observable inputs other than unadjusted quoted prices, such as interest rate yield curves and currency rates.

**12. RELATED PARTY TRANSACTIONS**

Churchill Falls enters into various transactions with its shareholders 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 Churchill Falls transacts are as follows:

<u>Related Party</u>	<u>Relationship</u>
Hydro	65.8% shareholder of Churchill Falls
Hydro-Québec	34.2% shareholder of Churchill Falls
The Province	100% shareholder of Nalcor
Nalcor	100% shareholder of Hydro
Twin Falls	Jointly controlled by Churchill Falls
Labrador Transmission Corporation	100% owned subsidiary of Nalcor
Muskkrat Falls Corporation	100% owned subsidiary of Nalcor
Labrador-Island Link Limited Partnership	100% owned subsidiary of Nalcor
Nalcor Energy Marketing Corporation	100% owned subsidiary of Nalcor

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Outstanding balances due to or from related parties are non-interest bearing with no set terms of repayment, unless otherwise stated.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)**

The amounts included in the financial statements for related party transactions are as follows:

<i>As at (thousands of Canadian dollars)</i>	Related party			June 30 2021	December 31 2020
<b>Trade and other receivables:</b>					
Energy sales	Hydro-Québec			4,762	4,921
Guaranteed winter availability contract	Hydro-Québec			-	7,763
Energy sales and other	Hydro			3,790	4,033
Engineering, technical, management and administrative services	Other			-	2
Engineering, technical, management and administrative services	Hydro-Québec			1,637	1,571
<b>Trade and other payables:</b>					
Engineering, technical, management and administrative services	Other			704	1,107
<b>Rental and royalty payable</b>	The Province			5,962	6,546
		Three months ended		Six months ended	
<i>For the period ended September 30 (thousands of Canadian dollars)</i>		2021	2020	2021	2020
<b>Energy sales:</b>					
Long-term power contract	Hydro-Québec	14,445	14,406	28,732	28,812
Long-term power contracts	Hydro	12,114	11,997	24,361	24,281
<b>Guaranteed winter availability:</b>					
Guaranteed winter availability contract	Hydro-Québec	-	-	22,881	22,981
<b>Operating (recovery) costs:</b>					
Engineering, technical, management and administrative services	Hydro-Québec	(125)	(571)	(429)	(1,084)
Engineering, technical, management and administrative services	Hydro	124	128	308	159
Rental and royalty expense	The Province	2,938	957	5,976	4,041
Engineering, technical, management and administrative services	Other	467	652	1,118	1,431

**13. COMMITMENTS AND CONTINGENCIES**

- (a) Outstanding commitments for capital projects total approximately \$37.8 million as at June 30, 2021 (December 31, 2020 - \$32.1 million).
- (b) Churchill Falls is subject to legal claims with respect to power delivery, construction, impact on land use and other various matters. For some legal claims, it is not possible at this time to predict with any certainty the outcome of such litigation. Should these claims result in an unfavourable outcome for Churchill Falls, they may have a significant adverse effect on Churchill Falls' financial position.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)**

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**14. SUPPLEMENTARY CASH FLOW INFORMATION**

	<b>Three months ended</b>		<b>Six months ended</b>	
<i>For the period ended June 30 (thousands of Canadian dollars)</i>	<b>2021</b>	2020	<b>2021</b>	2020
Trade and other receivables	<b>(14,910)</b>	17,213	<b>(15,526)</b>	13,530
Inventories	<b>109</b>	(251)	<b>(171)</b>	(1,037)
Prepayments	<b>971</b>	688	<b>2,006</b>	1,670
Trade and other payables	<b>14,006</b>	(4,019)	<b>(9,733)</b>	(16,155)
Rental and royalty payable	<b>2,936</b>	957	<b>(584)</b>	(2,842)
<b>Change in non-cash working capital balances</b>	<b>3,112</b>	14,588	<b>(24,008)</b>	(4,834)
Related to:				
Operating activities	<b>(12,139)</b>	17,628	<b>(33,507)</b>	42
Investing activities	<b>15,251</b>	(3,040)	<b>9,499</b>	(4,876)
	<b>3,112</b>	14,588	<b>(24,008)</b>	(4,834)