

CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED
CONDENSED INTERIM FINANCIAL STATEMENTS
June 30, 2022
(Unaudited)

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

<i>As at (thousands of Canadian dollars)</i>	Notes	June 30 2022	December 31 2021
ASSETS			
Current assets			
Cash		119,724	99,813
Restricted cash		301	313
Trade and other receivables	3	17,516	26,487
Inventories		19,484	18,791
Current portion of reserve fund		9,043	9,696
Prepayments		879	3,117
Total current assets		166,947	158,217
Non-current assets			
Property, plant and equipment	4	845,065	841,843
Intangible assets		713	585
Investment in joint venture		2,036	1,170
Reserve fund		53,672	56,530
Total assets		1,068,433	1,058,345
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	5	30,160	38,833
Rental and royalty payable	12	3,901	9,154
Current portion of deferred contributions		701	701
Total current liabilities		34,762	48,688
Non-current liabilities			
Deferred contributions		7,472	7,822
Decommissioning liabilities		625	619
Employee future benefits		33,894	33,001
Total liabilities		76,753	90,130
Shareholders' equity			
Share capital		82,900	82,900
Contributed capital		8,195	8,195
Reserves		(4,516)	(1,005)
Retained earnings		905,101	878,125
Total equity		991,680	968,215
Total liabilities and equity		1,068,433	1,058,345

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	
		2022	2021	2022	2021
Energy sales		25,379	26,559	57,680	53,093
Guaranteed winter availability		-	-	21,016	22,881
Net finance income	7	1,206	513	1,757	959
Other revenue	8	175	24,465	350	24,639
Revenue		26,760	51,537	80,803	101,572
Operating costs	9	15,237	13,222	29,485	27,354
Depreciation and amortization		8,096	7,544	16,218	15,003
Other expense	10	683	2,952	3,942	6,033
Share of loss of joint venture		3	8	9	20
Expenses		24,019	23,726	49,654	48,410
Profit for the period		2,741	27,811	31,149	53,162
Other comprehensive loss for the period					
Net fair value loss on reserve fund		(1,501)	(224)	(3,511)	(911)
Other comprehensive loss for the period		(1,501)	(224)	(3,511)	(911)
Total comprehensive income for the period		1,240	27,587	27,638	52,251

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
Balance at January 1, 2022		82,900	8,195	602	(1,607)	878,125	968,215
Profit for the period		-	-	-	-	31,149	31,149
Other comprehensive loss		-	-	(3,511)	-	-	(3,511)
Total comprehensive income for the period		-	-	(3,511)	-	31,149	27,638
Preferred dividends	6	-	-	-	-	(4,173)	(4,173)
Balance at June 30, 2022		82,900	8,195	(2,909)	(1,607)	905,101	991,680
Balance at January 1, 2021		82,900	8,195	2,238	(7,349)	813,716	899,700
Profit for the period		-	-	-	-	53,162	53,162
Other comprehensive loss		-	-	(911)	-	-	(911)
Total comprehensive income for the period		-	-	(911)	-	53,162	52,251
Preferred dividends	6	-	-	-	-	(3,982)	(3,982)
Balance at June 30, 2021		82,900	8,195	1,327	(7,349)	862,896	947,969

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	
		2022	2021	2022	2021
Operating activities					
Profit for the period		2,741	27,811	31,149	53,162
Adjustments to reconcile profit to cash provided from operating activities:					
Depreciation and amortization		8,096	7,544	16,218	15,003
Finance income	7	(1,212)	(523)	(1,769)	(978)
Finance expense	7	6	10	12	19
Other		355	275	665	760
		9,986	35,117	46,275	67,966
Changes in non-cash working capital balances	14	8,140	(12,139)	(4,111)	(33,507)
Interest received		1,249	506	1,759	983
Interest paid		(3)	(8)	(6)	(14)
Net cash provided from operating activities		19,372	23,476	43,917	35,428
Investing activities					
Additions to property, plant and equipment	4	(12,384)	(26,938)	(19,569)	(34,684)
Additions to intangible assets		(106)	(15)	(199)	(13)
Purchase of additional shares in joint venture		-	-	(875)	-
Changes in non-cash working capital balances	14	3,556	15,251	798	9,499
Net cash used in investing activities		(8,934)	(11,702)	(19,845)	(25,198)
Financing activities					
Decrease in restricted cash		23	-	12	-
Preferred dividends	6	(1,640)	(1,641)	(4,173)	(3,982)
Net cash used in financing activities		(1,617)	(1,641)	(4,161)	(3,982)
Net increase in cash		8,821	10,133	19,911	6,248
Cash, beginning of the period		110,903	93,188	99,813	97,073
Cash, end of the period		119,724	103,321	119,724	103,321

See accompanying notes

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

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

2.1 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, 2021.

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. Interim results will fluctuate due to the seasonal nature of electricity demand. Due to higher electricity demand during the winter months, revenue from electricity sales is generally higher during the first and fourth quarters.

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 Board of Directors has delegated the authority to approve the condensed interim financial statements to the Churchill Falls' Audit Committee, which approved the condensed interim financial statements on August 12, 2022.

2.2 Investment in Joint Venture

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Control exists when Churchill Falls has the power, directly or indirectly, to govern the financial and operating policies of another entity, so as to obtain benefits from its activities. Churchill Falls holds 50.4% of the equity share capital of Twin Falls Power Corporation Limited (Twin Falls) and is a party with other shareholders in a Participation Agreement which gives Churchill Falls joint control of Twin Falls. This investment is accounted for using the equity method. Under the equity method, the interest in the joint venture is carried in the Statement of Financial Position at cost plus post acquisition changes in Churchill Falls' share of net assets of the joint venture. The Statement of Profit and Comprehensive Income reflects Churchill Falls' share of the profit or loss of the joint venture. In January 2022, Churchill Falls purchased Wabush Resources Inc.'s 12.5% interest and Wabush Iron Co. Limited's 4.6% interest in Twin Falls, increasing the ownership share from 33.3% to 50.4%.

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

3. TRADE AND OTHER RECEIVABLES

	June 30	December 31
<i>As at (thousands of Canadian dollars)</i>	2022	2021
Due from related parties	13,661	21,537
Other receivables	3,855	4,950
	17,516	26,487

Other receivables include HST and other miscellaneous amounts.

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
Cost					
Balance at January 1, 2021	892,797	341,800	246,543	48,810	1,529,950
Additions	-	-	-	72,958	72,958
Decommissioning liabilities and revisions	-	(250)	-	-	(250)
Other adjustments	-	(109)	-	-	(109)
Disposals	(4,517)	(928)	(255)	-	(5,700)
Transfers	38,686	26,399	26,649	(91,734)	-
Balance at December 31, 2021	926,966	366,912	272,937	30,034	1,596,849
Additions	-	-	-	19,569	19,569
Other adjustments	-	(91)	54	(54)	(91)
Disposals	-	(90)	(1,926)	-	(2,016)
Transfers	-	-	510	(510)	-
Balance at June 30, 2022	926,966	366,731	271,575	49,039	1,614,311
Depreciation					
Balance at January 1, 2021	464,575	146,078	118,097	-	728,750
Depreciation	14,458	6,953	9,154	-	30,565
Disposals	(3,339)	(750)	(220)	-	(4,309)
Balance at December 31, 2021	475,694	152,281	127,031	-	755,006
Depreciation	7,557	3,785	4,801	-	16,143
Disposals	-	(54)	(1,849)	-	(1,903)
Balance at June 30, 2022	483,251	156,012	129,983	-	769,246
Carrying value					
Balance at January 1, 2021	428,222	195,722	128,446	48,810	801,200
Balance at December 31, 2021	451,272	214,631	145,906	30,034	841,843
Balance at June 30, 2022	443,715	210,719	141,592	49,039	845,065

5. TRADE AND OTHER PAYABLES

	June 30	December 31
<i>As at (thousands of Canadian dollars)</i>	2022	2021
Trade payables and accruals	27,684	33,361
Due to related parties	1,032	1,374
Other payables	1,444	4,098
	30,160	38,833

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

	Three months ended		Six months ended	
<i>For the period ended June 30 (thousands of Canadian dollars)</i>	2022	2021	2022	2021
Declared during the period				
Final preferred dividend for prior year	-	-	893	669
Interim preferred dividend for current period	1,640	1,641	3,280	3,313
	1,640	1,641	4,173	3,982

Churchill Falls did not pay any common dividends for the six month period ended June 30, 2022 (year ended December 31, 2021 - \$nil).

7. NET FINANCE INCOME

	Three months ended		Six months ended	
<i>For the period ended June 30 (thousands of Canadian dollars)</i>	2022	2021	2022	2021
Finance income				
Interest on reserve fund	729	310	1,041	567
Bank interest income	483	213	728	411
	1,212	523	1,769	978
Finance expense				
Accretion of decommissioning liability	3	2	6	5
Other interest expense	3	8	6	14
	6	10	12	19
Net finance income	1,206	513	1,757	959

8. OTHER REVENUE

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

	Three months ended		Six months ended	
<i>For the period ended June 30 (thousands of Canadian dollars)</i>	2022	2021	2022	2021
Salaries and benefits	9,881	9,581	19,831	19,918
Maintenance and materials	2,520	2,086	4,236	3,802
Insurance	1,119	1,047	2,235	2,081
Professional services	725	584	1,066	1,164
Travel and transportation	666	713	855	909
Other operating costs (recoveries)	326	(789)	1,262	(520)
	15,237	13,222	29,485	27,354

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>	Three months ended		Six months ended	
	2022	2021	2022	2021
Rental and royalty	678	2,938	3,901	5,976
Other	5	14	41	57
	683	2,952	3,942	6,033

11. FINANCIAL INSTRUMENTS

11.1 Fair Value

The estimated fair values of financial instruments as at June 30, 2022 and December 31, 2021 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, 2022 and year ended December 31, 2021.

As at June 30, 2022 and December 31, 2021, Churchill Falls did not have any Level 3 instruments.

	Level	Carrying	Fair	Carrying	Fair
		Value	Value	Value	Value
<i>(thousands of Canadian dollars)</i>		June 30, 2022		December 31, 2021	
Financial assets					
Reserve fund	2	62,715	62,715	66,226	66,226

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)

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 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 Churchill Falls transacts are as follows:

Related Party	Relationship
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	Wholly-owned subsidiary of Nalcor
Muskkrat Falls Corporation	Wholly-owned subsidiary of Nalcor
Labrador-Island Link Limited Partnership	Limited partnership between a wholly-owned subsidiary of Nalcor and Emera Newfoundland and Labrador Island Link Inc.

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>		June 30	December 31
		2022	2021
Trade and other receivables:			
Hydro-Québec		10,060	17,014
Hydro		3,601	4,243
Rental and royalty payable:			
The Province	(a)	3,901	9,154
		Three months ended	Six months ended
<i>For the period ended June 30 (thousands of Canadian dollars)</i>		2022	2021
		2022	2021
Energy sales:			
Hydro-Québec		13,161	14,445
Hydro		12,218	12,114
Guaranteed winter availability:			
Hydro-Québec		-	-
		21,016	22,881
Other revenue:			
Hydro-Québec		-	24,290
		-	-
Other expense:			
The Province		678	2,938
		3,901	5,976

(a) Churchill Falls is required to pay the Province an annual rental of 8% of the consolidated net profits before income taxes and an annual royalty of \$0.50 per horsepower year generated, which is payable on an annual basis before March 31 of the following fiscal year.

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

13. COMMITMENTS AND CONTINGENCIES

- (a) Outstanding commitments for capital projects total approximately \$49.1 million as at June 30, 2022 (December 31, 2021 - \$14.4 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.
- (c) Water Management Agreement (WMA) between Churchill Falls and Muskrat Falls provides for coordinated production for the efficient use of water on the Churchill River system by ensuring that water is available to meet delivery requirements and contractual commitments for both Churchill Falls and Muskrat Falls, while maximizing the energy produced from the water resource. As at June 30, 2022, Muskrat Falls has stored the equivalent of approximately 2.4 Twh (December 31, 2021 – 1.3 Twh) of energy in the Churchill Falls reservoir.

14. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Three months ended		Six months ended	
	2022	2021	2022	2021
Trade and other receivables	9,779	(14,910)	8,981	(15,526)
Inventories	(138)	109	(693)	(171)
Prepayments	1,200	971	2,238	2,006
Trade and other payables	177	14,006	(8,586)	(9,733)
Rental and royalty payable	678	2,936	(5,253)	(584)
Change in non-cash working capital balances	11,696	3,112	(3,313)	(24,008)
Related to:				
Operating activities	8,140	(12,139)	(4,111)	(33,507)
Investing activities	3,556	15,251	798	9,499
	11,696	3,112	(3,313)	(24,008)