

CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED
CONDENSED INTERIM FINANCIAL STATEMENTS
September 30, 2021
(Unaudited)

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

<i>As at (thousands of Canadian dollars)</i>	Notes	September 30 2021	December 31 2020
ASSETS			
Current assets			
Cash		120,107	97,073
Restricted cash		274	274
Trade and other receivables	3	15,492	21,050
Inventories		17,788	18,220
Current portion of reserve fund		9,504	4,208
Prepayments		4,351	3,095
Total current assets		167,516	143,920
Non-current assets			
Property, plant and equipment	4	836,845	801,200
Intangible assets		521	661
Investment in joint venture		1,932	1,976
Reserve fund		47,837	54,279
Total assets		1,054,651	1,002,036
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	5	47,806	48,668
Rental and royalty payable		7,019	6,546
Current portion of deferred contributions		701	690
Total current liabilities		55,526	55,904
Non-current liabilities			
Deferred contributions		7,997	8,533
Decommissioning liabilities		1,208	1,000
Employee future benefits		38,493	36,899
Total liabilities		103,224	102,336
Shareholders' equity			
Share capital		82,900	82,900
Contributed capital		8,195	8,195
Reserves		(6,249)	(5,111)
Retained earnings		866,581	813,716
Total equity		951,427	899,700
Total liabilities and equity		1,054,651	1,002,036

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 September 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Nine months ended	
		2021	2020	2021	2020
Energy sales		29,366	26,131	82,459	79,223
Guaranteed winter availability		-	-	22,881	22,981
Net finance income	7	537	398	1,496	1,412
Other revenue	8	176	172	24,815	517
Revenue		30,079	26,701	131,651	104,133
Operating costs	9	15,119	16,421	42,473	42,638
Depreciation and amortization		7,557	7,420	22,560	22,773
Other expense	10	1,068	590	7,101	4,768
Share of loss of joint venture		24	22	44	25
Expenses		23,768	24,453	72,178	70,204
Profit for the period		6,311	2,248	59,473	33,929
Other comprehensive (loss) income for the period					
Net fair value (loss) gain on reserve fund		(227)	219	(1,138)	1,605
Other comprehensive (loss) income for the period		(227)	219	(1,138)	1,605
Total comprehensive income for the period		6,084	2,467	58,335	35,534

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, 2021		82,900	8,195	2,238	(7,349)	813,716	899,700
Profit for the period		-	-	-	-	59,473	59,473
Other comprehensive loss		-	-	(1,138)	-	-	(1,138)
Total comprehensive (loss) income for the period		-	-	(1,138)	-	59,473	58,335
Preferred dividends	6	-	-	-	-	(6,608)	(6,608)
Balance at September 30, 2021		82,900	8,195	1,100	(7,349)	866,581	951,427
Balance at January 1, 2020		82,900	8,195	562	(7,078)	772,718	857,297
Profit for the period		-	-	-	-	33,929	33,929
Other comprehensive income		-	-	1,605	-	-	1,605
Total comprehensive income for the period		-	-	1,605	-	33,929	35,534
Preferred dividends	6	-	-	-	-	(5,898)	(5,898)
Balance at September 30, 2020		82,900	8,195	2,167	(7,078)	800,749	886,933

See accompanying note

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

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Nine months ended	
		2021	2020	2021	2020
Operating activities					
Profit for the period		6,311	2,248	59,473	33,929
Adjustments to reconcile profit to cash provided from operating activities:					
Depreciation and amortization		7,557	7,420	22,560	22,773
Amortization of deferred contributions		(175)	(172)	(525)	(517)
Employee benefits		564	457	1,595	1,265
Loss on disposal of property, plant and equipment	10	8	24	67	147
Share of loss of joint venture		24	22	44	25
Finance income	7	(547)	(415)	(1,525)	(1,457)
Finance expense	7	10	17	29	45
		13,752	9,601	81,718	56,210
Change in non-cash working capital balances	14	24,633	(5,086)	(8,874)	(5,044)
Interest received		558	375	1,541	1,419
Interest paid		(7)	(9)	(21)	(21)
Net cash provided from operating activities		38,936	4,881	74,364	52,564
Investing activities					
Additions to property, plant and equipment	4	(23,272)	(18,636)	(57,956)	(31,378)
Addition to intangible assets		(9)	(64)	(22)	(186)
Decrease in reserve fund		8	-	8	-
Changes in non-cash working capital balances	14	3,749	10,942	13,248	6,066
Net cash used in investing activities		(19,524)	(7,758)	(44,722)	(25,498)
Financing activities					
Increase in restricted cash		-	-	-	(85)
Preferred dividends	6	(2,626)	(1,733)	(6,608)	(5,898)
Net cash used in financing activities		(2,626)	(1,733)	(6,608)	(5,983)
Net increase (decrease) in cash		16,786	(4,610)	23,034	21,083
Cash, beginning of the period		103,321	114,699	97,073	89,006
Cash, end of the period		120,107	110,089	120,107	110,089

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

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 November 10, 2021.

3. TRADE AND OTHER RECEIVABLES

	September 30	December 31
<i>As at (thousands of Canadian dollars)</i>	2021	2020
Due from related parties	11,342	18,290
Other receivables	4,150	2,760
	15,492	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
Cost					
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)	-
Balance at December 31, 2020	892,797	341,800	246,543	48,810	1,529,950
Additions	-	-	-	57,956	57,956
Decommissioning liabilities and revisions	-	200	-	-	200
Disposals	(155)	-	(204)	-	(359)
Transfers	286	1,119	563	(1,968)	-
Balance at September 30, 2021	892,928	343,119	246,902	104,798	1,587,747
Depreciation					
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)
Balance at December 31, 2020	464,575	146,078	118,097	-	728,750
Depreciation	10,694	5,072	6,678	-	22,444
Disposals	(113)	-	(179)	-	(292)
Balance at September 30, 2021	475,156	151,150	124,596	-	750,902
Carrying value					
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
Balance at September 30, 2021	417,772	191,969	122,306	104,798	836,845

5. TRADE AND OTHER PAYABLES

<i>As at (thousands of Canadian dollars)</i>	September 30 2021	December 31 2020
Trade payables and accruals	43,710	45,143
Payables due to related parties	879	1,107
Other payables	3,217	2,418
	47,806	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 September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2021	2020	2021	2020
Declared during the period				
Final preferred dividend for prior year	-	-	669	700
Interim preferred dividend for current period	2,626	1,733	5,939	5,198
	2,626	1,733	6,608	5,898

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

7. NET FINANCE INCOME

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2021	2020	2021	2020
Finance income				
Interest on reserve fund	319	144	886	428
Other interest income	228	271	639	1,029
	547	415	1,525	1,457
Finance expense				
Accretion of decommissioning liability	3	8	8	24
Other interest expense	7	9	21	21
	10	17	29	45
Net finance income	537	398	1,496	1,412

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 September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2021	2020	2021	2020
Salaries and benefits	11,040	11,268	30,958	30,670
Maintenance and materials	2,828	3,594	6,630	6,398
Insurance	1,111	1,035	3,192	2,666
Professional services	416	330	1,580	1,240
Other operating costs	(276)	194	113	1,664
	15,119	16,421	42,473	42,638

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

10. OTHER EXPENSE

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2021	2020	2021	2020
Rental and royalty	1,056	571	7,032	4,612
Loss on disposal of property, plant and equipment	8	24	67	147
Unrealized foreign exchange loss (gain)	2	-	2	(2)
Realized foreign exchange loss (gain)	2	(5)	-	8
Other	-	-	-	3
	1,068	590	7,101	4,768

11. FINANCIAL INSTRUMENTS

11.1 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 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 September 30, 2021 and year ended December 31, 2020.

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

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>(thousands of Canadian dollars)</i>		September 30, 2021		December 31, 2020	
Financial assets					
Reserve fund	2	57,341	57,341	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)

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	September 30	December 31		
		2021	2021	2020	
Trade and other receivables:					
Energy sales	Hydro-Québec	4,801		4,921	
Guaranteed winter availability contract	Hydro-Québec	-		7,763	
Energy sales and other	Hydro	3,495		4,033	
Engineering, technical, management and administrative services	Other	1		2	
Engineering, technical, management and administrative services	Hydro-Québec	3,045		1,571	
Trade and other payables:					
Engineering, technical, management and administrative services	Other	879		1,107	
Rental and royalty payable	The Province	7,019		6,546	
		Three months ended	Nine months ended		
<i>For the period ended September 30 (thousands of Canadian dollars)</i>		2021	2020	2021	2020
Energy sales:					
Long-term power contract	Hydro-Québec	17,969	14,576	46,701	43,388
Long-term power contracts	Hydro	11,397	11,554	35,758	35,835
Guaranteed winter availability:					
Guaranteed winter availability contract	Hydro-Québec	-	-	22,881	22,981
Operating (recovery) costs:					
Engineering, technical, management and administrative services	Hydro-Québec	(1,516)	(395)	(1,945)	(1,479)
Engineering, technical, management and administrative services	Hydro	83	62	391	221
Rental and royalty expense	The Province	1,056	571	7,032	4,612
Engineering, technical, management and administrative services	Other	672	662	1,790	2,093

13. COMMITMENTS AND CONTINGENCIES

- (a) Outstanding commitments for capital projects total approximately \$27.6 million as at September 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)

14. SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended		Nine months ended	
<i>For the period ended September 30 (thousands of Canadian dollars)</i>	2021	2020	2021	2020
Trade and other receivables	21,067	(4,271)	5,541	9,259
Inventories	603	153	432	(884)
Prepayments	(3,262)	(3,230)	(1,256)	(1,560)
Trade and other payables	8,917	12,633	(816)	(3,522)
Rental and royalty payable	1,057	571	473	(2,271)
Change in non-cash working capital balances	28,382	5,856	4,374	1,022
Related to:				
Operating activities	24,633	(5,086)	(8,874)	(5,044)
Investing activities	3,749	10,942	13,248	6,066
	28,382	5,856	4,374	1,022