

CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
September 30, 2023
(Unaudited)

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

<i>As at (thousands of Canadian dollars)</i>	Notes	September 30 2023	December 31 2022
ASSETS			
Current assets			
Cash		132,261	122,236
Restricted cash		298	301
Trade and other receivables	3	20,240	22,969
Inventories		19,504	19,071
Current portion of reserve fund		21,216	14,166
Prepayments		3,965	2,980
Total current assets		197,484	181,723
Non-current assets			
Property, plant and equipment	4	940,554	911,201
Intangible assets		871	904
Reserve fund		54,239	60,755
Total assets		1,193,148	1,154,583
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	5	50,504	37,007
Rental and royalty payable	11	4,355	9,052
Current portion of decommissioning and environmental liabilities		2,774	3,400
Current portion of deferred credits		1,514	1,514
Current portion of deferred contributions		492	390
Total current liabilities		59,639	51,363
Non-current liabilities			
Decommissioning and environmental liabilities		541	520
Deferred credits		25,615	26,751
Deferred contributions		9,899	8,811
Employee future benefits		24,023	23,219
Total liabilities		119,717	110,664
Shareholders' equity			
Share capital		82,900	82,900
Contributed capital		8,195	8,195
Reserves		5,728	6,085
Retained earnings		976,608	946,739
Total equity		1,073,431	1,043,919
Total liabilities and equity		1,193,148	1,154,583

Commitments and contingencies (Note 12)

Subsequent event (Note 14)

See accompanying notes

CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED
CONSOLIDATED 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	
		2023	2022	2023	2022
			(Note 2.2)		(Note 2.2)
Energy sales		24,415	61,149	81,909	118,829
Guaranteed winter availability		-	-	22,937	21,016
Net finance income	7	2,482	1,335	6,672	3,092
Other revenue		1,234	175	2,532	525
Revenue		28,131	62,659	114,050	143,462
Operating costs	8	21,494	15,376	53,607	44,861
Depreciation and amortization		9,109	8,077	27,100	24,295
Other (income) expense	9	(5,686)	3,398	(1,690)	7,340
Share of loss of joint venture		-	696	-	705
Expenses		24,917	27,547	79,017	77,201
Profit for the period		3,214	35,112	35,033	66,261
Other comprehensive loss for the period					
Net fair value loss on reserve fund		(369)	(610)	(357)	(4,121)
Other comprehensive loss for the period		(369)	(610)	(357)	(4,121)
Total comprehensive income for the period		2,845	34,502	34,676	62,140

See accompanying notes

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

<i>(thousands of Canadian dollars)</i>	Notes	Share Capital	Contributed Capital	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
Balance at January 1, 2023		82,900	8,195	(3,760)	9,845	946,739	1,043,919
Profit for the period		-	-	-	-	35,033	35,033
Other comprehensive loss		-	-	(357)	-	-	(357)
Total comprehensive income for the period		-	-	(357)	-	35,033	34,676
Preferred dividends	6	-	-	-	-	(5,164)	(5,164)
Balance at September 30, 2023		82,900	8,195	(4,117)	9,845	976,608	1,073,431
Balance at January 1, 2022 (Note 2.2)		82,900	8,195	602	(1,607)	878,125	968,215
Profit for the period		-	-	-	-	66,261	66,261
Other comprehensive loss		-	-	(4,121)	-	-	(4,121)
Total comprehensive income for the period		-	-	(4,121)	-	66,261	62,140
Preferred dividends	6	-	-	-	-	(5,814)	(5,814)
Balance at September 30, 2022 (Note 2.2)		82,900	8,195	(3,519)	(1,607)	938,572	1,024,541

See accompanying notes

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

	Notes	Three months ended		Nine months ended	
		2023	2022	2023	2022
<i>For the period ended September 30 (thousands of Canadian dollars)</i>					
Operating activities					
Profit for the period		3,214	35,112	35,033	66,261
Adjustments to reconcile profit to cash provided from operating activities:					
Depreciation and amortization		9,109	8,077	27,100	24,295
Finance income	7	(2,501)	(1,343)	(6,714)	(3,112)
Finance expense	7	19	8	42	20
Other		(239)	823	(585)	1,488
		9,602	42,677	54,876	88,952
Changes in non-cash working capital balances	13	11,073	(29,841)	12,401	(33,952)
Interest received		2,597	1,323	6,803	3,082
Interest paid		(12)	(5)	(21)	(11)
Net cash provided from operating activities		23,260	14,154	74,059	58,071
Investing activities					
Additions to property, plant and equipment and intangible assets	4	(24,489)	(37,822)	(56,553)	(57,590)
Contributions to reserve fund		(628)	-	(891)	-
Purchase of additional shares in joint venture		-	-	-	(875)
Increase in deferred contributions		-	-	1,576	-
Changes in non-cash working capital balances	13	(8,315)	11,597	(2,379)	12,395
Settlement of environmental liabilities		(580)	-	(626)	-
Net cash used in investing activities		(34,012)	(26,225)	(58,873)	(46,070)
Financing activities					
Decrease in restricted cash		5	-	3	12
Preferred dividends	6	(1,543)	(1,641)	(5,164)	(5,814)
Net cash used in financing activities		(1,538)	(1,641)	(5,161)	(5,802)
Net (decrease) increase in cash		(12,290)	(13,712)	10,025	6,199
Cash, beginning of the period		144,551	119,724	122,236	99,813
Cash, end of the period		132,261	106,012	132,261	106,012

See accompanying notes

CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED
NOTES TO THE CONDENSED CONSOLIDATED 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. Churchill Falls holds a 100% interest in Twin Falls Power Corporation Limited (Twin Falls). 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 consolidated 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 consolidated financial statements for the year ended December 31, 2022.

These condensed interim financial statements do not include all of the disclosures normally found in Churchill Falls' annual consolidated audited financial statements and should be read in conjunction with the annual consolidated audited financial statements. Due to the seasonal nature of electricity demand, the volume of electricity sales is typically higher during the winter months, which contributes to fluctuations in the Company's interim financial results.

These condensed consolidated 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 consolidated 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 consolidated interim financial statements to the Churchill Falls' Audit Committee, which approved the condensed consolidated interim financial statements on November 8, 2023.

2.2 Basis of Consolidation

The financial statements include the financial statements of Churchill Falls and its subsidiary company, Twin Falls Power Corporation. Intercompany transactions and balances have been eliminated upon consolidation. On November 1, 2022, Churchill Falls purchased the remaining interest in Twin Falls to increase ownership to 100.0%. The acquisition has been accounted for prospectively in the consolidated financial statements. As such, the Consolidated Statement of Financial Position as at September 30, 2023 and December 31, 2022 includes Twin Falls assets and liabilities, with any intercompany transactions eliminated.

For the purpose of our Condensed Consolidated Interim Financial Statements at September 30, 2023, the Statement of Profit and Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows show non-consolidated comparative figures at September 30, 2022, as the share purchase did not occur until November 1, 2022.

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

3. TRADE AND OTHER RECEIVABLES

	September 30	December 31
<i>As at (thousands of Canadian dollars)</i>	2023	2022
Due from related parties	16,459	18,552
Other receivables	3,781	4,417
	20,240	22,969

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, 2022	926,966	366,912	272,937	30,034	1,596,849
Additions	-	-	28,517	75,155	103,672
Decommissioning liability and revisions	-	(39)	-	-	(39)
Other adjustments	(4)	(245)	34	(64)	(279)
Disposals	(1,913)	(776)	(2,064)	-	(4,753)
Transfers	25,674	31,154	34,851	(91,679)	-
Balance at December 31, 2022	950,723	397,006	334,275	13,446	1,695,450
Additions	-	-	-	56,451	56,451
Disposals	(2,130)	(29)	(547)	-	(2,706)
Transfers	(3,750)	1,040	3,744	(1,034)	-
Balance at September 30, 2023	944,843	398,017	337,472	68,863	1,749,195
Depreciation					
Balance at January 1, 2022	475,694	152,281	127,031	-	755,006
Depreciation	15,327	7,812	10,230	-	33,369
Disposals	(1,483)	(714)	(1,929)	-	(4,126)
Balance at December 31, 2022	489,538	159,379	135,332	-	784,249
Depreciation	12,232	6,323	8,410	-	26,965
Other adjustments	(83)	-	83	-	-
Disposals	(2,016)	(27)	(530)	-	(2,573)
Balance at September 30, 2023	499,671	165,675	143,295	-	808,641
Carrying value					
Balance at January 1, 2022	451,272	214,631	145,906	30,034	841,843
Balance at December 31, 2022	461,185	237,627	198,943	13,446	911,201
Balance at September 30, 2023	445,172	232,342	194,177	68,863	940,554

CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

5. TRADE AND OTHER PAYABLES

	September 30	December 31
<i>As at (thousands of Canadian dollars)</i>	2023	2022
Trade payables and accruals	46,581	32,224
Due to related parties	895	946
Other payables	3,028	3,837
	50,504	37,007

Other payables include HST and other miscellaneous amounts.

6. SHAREHOLDERS' EQUITY

Dividends Paid and Proposed

	Three months ended		Nine months ended	
<i>For the period ended September 30 (thousands of Canadian dollars)</i>	2023	2022	2023	2022
Declared during the period				
Final preferred dividend (recovery) for prior year	-	-	(667)	893
Interim preferred dividend for current period	1,543	1,641	5,831	4,921
	1,543	1,641	5,164	5,814

7. NET FINANCE INCOME

	Three months ended		Nine months ended	
<i>For the period ended September 30 (thousands of Canadian dollars)</i>	2023	2022	2023	2022
Finance income				
Interest on reserve fund	592	467	1,509	1,508
Bank interest income	1,909	876	5,205	1,604
	2,501	1,343	6,714	3,112
Finance expense				
Accretion of decommissioning liability	7	3	21	9
Other	12	5	21	11
	19	8	42	20
Net finance income	2,482	1,335	6,672	3,092

8. OPERATING COSTS

	Three months ended		Nine months ended	
<i>For the period ended September 30 (thousands of Canadian dollars)</i>	2023	2022	2023	2022
Salaries and benefits	12,616	10,713	32,953	30,544
Maintenance and materials	5,707	2,817	11,118	7,053
Insurance	1,254	1,195	3,608	3,430
Professional services	681	614	2,271	1,680
Travel and transportation	1,171	968	2,217	1,823
Other operating costs	65	(931)	1,440	331
	21,494	15,376	53,607	44,861

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

9. OTHER (INCOME) EXPENSE

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2023	2022	2023	2022
Rental and royalty	541	3,399	4,409	7,300
Loss on disposal of property, plant and equipment	7	-	133	-
Foreign exchange loss	17	-	19	-
Other	-	(1)	-	40
Insurance proceeds	(6,251)	-	(6,251)	-
	(5,686)	3,398	(1,690)	7,340

10. FINANCIAL INSTRUMENTS

Fair Value

The estimated fair values of financial instruments as at September 30, 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 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, 2023 and the year ended December 31, 2022.

As at September 30, 2023 and December 31, 2022, 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, 2023		December 31, 2022	
Financial assets					
Reserve fund	2	75,455	75,455	74,921	74,921

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 CONSOLIDATED 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.

11. RELATED PARTY TRANSACTIONS

Churchill Falls enters into various transactions with its shareholders 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:

<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	Wholly-owned subsidiary of Churchill Falls as of November 1, 2022
Labrador Transmission Corporation	Wholly-owned subsidiary of Nalcor
Muskrat 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.

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

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

<i>As at (thousands of Canadian dollars)</i>	September 30			December 31
	2023			2022
Trade and other receivables:				
Hydro-Québec	12,207			14,286
Hydro	4,252			4,266
Rental and royalty payable:				
The Province (a)	4,355			9,052
Trade and other payables:				
Other	895			946
		Three months ended		Nine months ended
<i>For the period ended September 30 (thousands of Canadian dollars)</i>	2023	2022	2023	2022
Energy sales:				
Hydro-Québec	11,618	48,713	44,037	81,615
Hydro	12,799	12,436	37,872	37,214
Guaranteed winter availability:				
Hydro-Québec	-	-	22,937	21,016
Other revenue:				
Hydro-Québec	505	-	1,417	-
Other expense:				
The Province	541	3,399	4,409	7,300

(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.

12. COMMITMENTS AND CONTINGENCIES

- (a) Outstanding commitments for capital projects total approximately \$60.2 million as at September 30, 2023 (December 31, 2022 - \$26.4 million).
- (b) Churchill Falls is subject to legal claims with respect to impact on land use, energy and capacity delivery, construction 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) The Water Management Agreement 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 September 30, 2023, Muskrat Falls has stored the equivalent of approximately 1.8 Twh (December 31, 2022 – 1.5 Twh) of energy in the Churchill Falls reservoir.

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

13. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2023	2022	2023	2022
Trade and other receivables	(6,247)	(42,263)	2,640	(33,282)
Inventories	820	79	(433)	(614)
Prepayments	(3,500)	(3,304)	(985)	(1,066)
Trade and other payables	11,144	23,845	13,497	15,259
Rental and royalty payable	541	3,399	(4,697)	(1,854)
Change in non-cash working capital balances	2,758	(18,244)	10,022	(21,557)
Related to:				
Operating activities	11,073	(29,841)	12,401	(33,952)
Investing activities	(8,315)	11,597	(2,379)	12,395
	2,758	(18,244)	10,022	(21,557)

14. SUBSEQUENT EVENT

On September 26, 2023, Churchill Falls' Board of Directors passed a resolution to proceed with the dissolution of the Twin Falls Power Corporation Ltd. which was subsequently approved by Twin Falls Board of Directors on October 12, 2023. As part of the articles of dissolution agreement, Churchill Falls, as the sole remaining shareholder, will assume all remaining assets and liabilities of Twin Falls Power Corporation.