

CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
March 31, 2024
(Unaudited)

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

		March 31 2024	December 31 2023
<i>As at (thousands of Canadian dollars)</i>	Notes		(Note 2.2)
ASSETS			
Current assets			
Cash		141,305	130,725
Restricted cash		298	298
Trade and other receivables	3	29,331	25,826
Inventories		22,331	21,854
Current portion of reserve fund		12,607	16,520
Prepayments		1,492	2,768
Total current assets		207,364	197,991
Non-current assets			
Property, plant and equipment	4	942,917	945,487
Intangible assets		780	804
Reserve fund		62,624	58,905
Total assets		1,213,685	1,203,187
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	5	24,805	40,559
Rental and royalty payable	11	3,352	6,499
Current portion of decommissioning and environmental liabilities		2,197	2,223
Current portion of deferred credits		1,514	1,514
Current portion of deferred contributions		482	482
Total current liabilities		32,350	51,277
Non-current liabilities			
Decommissioning and environmental liabilities		161	157
Deferred credits		24,858	25,237
Deferred contributions		9,659	9,782
Employee future benefits		27,668	27,517
Total liabilities		94,696	113,970
Shareholders' equity			
Share capital		82,900	82,900
Contributed capital		8,195	8,195
Reserves		4,062	4,448
Retained earnings		1,023,832	993,674
Total equity		1,118,989	1,089,217
Total liabilities and equity		1,213,685	1,203,187

Commitments and contingencies (Note 12)

See accompanying notes

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

		Three months ended	
		2024	2023
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Notes		(Note 2.2)
Energy sales		34,266	33,091
Guaranteed winter availability		22,687	22,937
Net finance income	7	2,590	2,010
Other revenue		1,283	576
Revenue		60,826	58,614
Operating costs	8	15,928	15,652
Depreciation and amortization		9,734	9,636
Other expense	9	3,463	3,408
Expenses		29,125	28,696
Profit for the period		31,701	29,918
Other comprehensive (loss) income			
Total items that may or have been reclassified to profit or loss:			
Net fair value (loss) gain on reserve fund		(386)	767
Other comprehensive (loss) income for the period		(386)	767
Total comprehensive income for the period		31,315	30,685

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, 2024		82,900	8,195	(2,351)	6,799	993,674	1,089,217
Profit for the period		-	-	-	-	31,701	31,701
Net fair value loss on reserve fund				(386)			(386)
Total comprehensive income for the period		-	-	(386)	-	31,701	31,315
Preferred dividends	6	-	-	-	-	(1,543)	(1,543)
Balance at March 31, 2024		82,900	8,195	(2,737)	6,799	1,023,832	1,118,989
Balance at January 1, 2023 (Note 2.2)		82,900	8,195	(3,760)	9,845	946,739	1,043,919
Profit for the period		-	-	-	-	29,918	29,918
Net fair value gain on reserve fund		-	-	767	-	-	767
Total comprehensive income for the period		-	-	767	-	29,918	30,685
Preferred dividends	6	-	-	-	-	(2,685)	(2,685)
Balance at March 31, 2023 (Note 2.2)		82,900	8,195	(2,993)	9,845	973,972	1,071,919

See accompanying notes

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

		Three months ended	
		2024	2023
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Notes		(Note 2.2)
Operating activities			
Profit for the year		31,701	29,918
Adjustments to reconcile profit to cash provided from operating activities:			
Depreciation and amortization		9,734	9,636
Finance income	7	(2,607)	(2,020)
Finance expense	7	17	10
Other		(351)	(158)
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Changes in non-cash working capital balances	13	(8,462)	(12,325)
Interest received		2,652	1,975
Interest paid		(13)	(4)
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Net cash provided from operating activities		32,671	27,033
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Investing activities			
Additions to property, plant and equipment and intangible assets		(7,140)	(6,354)
Withdrawals from (contributions to) reserve fund		(192)	315
Changes in non-cash working capital balances	13	(13,190)	(10,178)
Increase in deferred contributions		-	1,576
Other		(26)	(15)
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Net cash used in investing activities		(20,548)	(14,656)
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Financing activities			
Preferred dividends	6	(1,543)	(2,685)
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Net cash used in financing activities		(1,543)	(2,685)
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Net increase in cash		10,580	9,691
Cash, beginning of the period		130,725	122,236
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Cash, end of the period		141,305	131,927

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. The head and corporate office for Churchill Falls is located at 500 Columbus Drive, St. John's, Newfoundland and Labrador, A1B 3T5.

Churchill Falls held a 100% interest in Twin Falls Power Corporation Limited (Twin Falls). Effective December 18, 2023, Twin Falls was dissolved.

2. MATERIAL 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, 2023.

These condensed consolidated 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 May 14, 2024.

2.2 Basis of Consolidation

The financial statements include the financial statements of Churchill Falls and its formerly wholly owned subsidiary Twin Falls up until its dissolution on December 18, 2023. Intercompany transactions and balances have been eliminated upon consolidation.

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

3. TRADE AND OTHER RECEIVABLES

	March 31	December 31
	2024	2023
<i>As at (thousands of Canadian dollars)</i>		(Note 2.2)
Due from related parties	27,535	21,965
Other receivables	1,796	3,861
	29,331	25,826

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, 2023	950,723	397,006	305,758	41,963	1,695,450
Additions	-	-	-	74,286	74,286
Decommissioning liability and revisions	-	(139)	-	-	(139)
Other adjustments	-	(77)	(17)	94	-
Disposals	(5,663)	(635)	(884)	-	(7,182)
Transfers	21,872	28,636	11,361	(61,869)	-
Balance at December 31, 2023	966,932	424,791	316,218	54,474	1,762,415
Additions	-	-	-	7,123	7,123
Disposals	(27)	-	(844)	-	(871)
Transfers	-	-	15	(15)	-
Balance at March 31, 2024	966,905	424,791	315,389	61,582	1,768,667
Depreciation					
Balance at January 1, 2023	489,538	159,379	135,332	-	784,249
Depreciation	16,776	9,006	11,459	-	37,241
Other adjustments	(83)	-	83	-	-
Disposals	(3,197)	(527)	(838)	-	(4,562)
Balance at December 31, 2023	503,034	167,858	146,036	-	816,928
Depreciation	4,272	2,435	2,986	-	9,693
Disposals	(27)	-	(844)	-	(871)
Balance at March 31, 2024	507,279	170,293	148,178	-	825,750
Carrying value					
Balance at January 1, 2023	461,185	237,627	170,426	41,963	911,201
Balance at December 31, 2023	463,898	256,933	170,182	54,474	945,487
Balance at March 31, 2024	459,626	254,498	167,211	61,582	942,917

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

5. TRADE AND OTHER PAYABLES

	March 31	December 31
	2024	2023
<i>As at (thousands of Canadian dollars)</i>		(Note 2.2)
Trade payables and accruals	20,369	36,848
Due to related parties	882	306
Other payables	3,554	3,405
	24,805	40,559

Other payables include HST and other miscellaneous amounts.

6. SHAREHOLDERS' EQUITY

Dividends Paid and Proposed

	Three months ended	
	2024	2023
<i>For the period ended March 31 (thousands of Canadian dollars)</i>		
Declared and paid during the period		
Final preferred dividend (recovery) for prior year	17	(667)
Interim preferred dividend for current period	1,526	3,352
	1,543	2,685

7. NET FINANCE INCOME

	Three months ended	
	2024	2023
<i>For the period ended March 31 (thousands of Canadian dollars)</i>		(Note 2.2)
Finance income		
Interest on reserve fund	758	498
Bank interest income	1,849	1,522
	2,607	2,020
Finance expense		
Accretion of decommissioning liability	4	7
Other interest expense	13	3
	17	10
Net finance income	2,590	2,010

8. OPERATING COSTS

	Three months ended	
	2024	2023
<i>For the period ended March 31 (thousands of Canadian dollars)</i>		(Note 2.2)
Salaries and benefits	10,464	10,449
Maintenance and materials	1,817	2,137
Insurance	1,249	1,176
Professional services	361	493
Grocery store cost of goods sold	521	-
Other operating costs	1,516	1,397
	15,928	15,652

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

9. OTHER EXPENSE

	Three months ended	
	2024	2023
<i>For the period ended March 31 (thousands of Canadian dollars)</i>		(Note 2.2)
Rental and royalty	3,463	3,285
Loss on disposal of property, plant and equipment	-	123
	3,463	3,408

10. FINANCIAL INSTRUMENTS

Fair Value

The estimated fair values of financial instruments as at March 31, 2024 and December 31, 2023 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 March 31, 2024 and the year ended December 31, 2023.

As at March 31, 2024 and December 31, 2023, Churchill Falls did not have any Level 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>(thousands of Canadian dollars)</i>		March 31, 2024		December 31, 2023	
Financial assets					
Reserve fund	2	75,231	75,231	75,425	75,425

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 normally within 30 days.

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
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.

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 consolidated financial statements, are summarized below:

	March 31	December 31
	2024	2023
		(Note 2.2)
<i>As at (thousands of Canadian dollars)</i>		
Trade and other receivables:		
Hydro-Québec	23,004	17,543
Hydro	4,531	4,422
Rental and royalty payable:		
The Province	(a) 3,352	6,499
Trade and other payables:		
Other	882	306
	Three months ended	
	2024	2023
		(Note 2.2)
<i>For the period ended March 31 (thousands of Canadian dollars)</i>		
Energy sales:		
Hydro-Québec	20,283	19,785
Hydro	13,983	13,306
Guaranteed winter availability:		
Hydro-Québec	22,687	22,937
Other revenue:		
Hydro-Québec	504	446
Other expense:		
The Province	3,463	3,285
Operating costs:		
Hydro	421	186

(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 \$78.7 million as at March 31, 2024 (December 31, 2023 - \$49.1 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 March 31, 2024, Muskrat Falls has stored the equivalent of approximately 2.1 Twh (December 31, 2023 – 2.0 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

	Three months ended	
	2024	2023
<i>For the period ended March 31 (thousands of Canadian dollars)</i>		(Note 2.2)
Trade and other receivables	(3,550)	(3,665)
Inventories	(477)	(744)
Prepayments	1,276	1,094
Trade and other payables	(15,754)	(13,364)
Rental and royalty payable	(3,147)	(5,824)
Change in non-cash working capital balances	(21,652)	(22,503)
Related to:		
Operating activities	(8,462)	(12,325)
Investing activities	(13,190)	(10,178)
	(21,652)	(22,503)