

April 27, 2026

VIA EMAIL

Attention: [REDACTED]

Dear [REDACTED]

**Re: Your request for access to information under Part II of the *Access to Information and Protection of Privacy Act, 2015* (File #: PB/394/2026)**

On March 27, 2026, we received your request for access to the following records/information:

*Daily sales of electricity produced by CF(L)Co in May 2025.*

Please be advised that access to the records responsive to your request have been granted, in part, in accordance with the following exceptions to disclosure, as specified in the **Access to Information and Protection of Privacy Act (the ATIPPA)**:

**Section 22(1)(a):** The head of a public body may refuse to disclose a record or part of a record that is published and is available to the public whether without cost or for purchase;

**Section 34(1)(a)(i):** The head of a public body may refuse to disclose information to an applicant if the disclosure could reasonably be expected to harm the conduct by the government of the province of relations between that government and the following or their agencies: the government of Canada or a province;

**Section 35(1)(d):** The head of a public body may refuse to disclose to an applicant information which could reasonably be expected to disclose information, the disclosure of which could reasonably be expected to result in the premature disclosure of a proposal or project or in significant loss or gain to a third party;

**Section 35(1)(g):** The head of a public body may refuse to disclose to an applicant information which could reasonably be expected to disclose information, the disclosure of which could reasonably be expected to prejudice the financial or economic interest of the government of the province or a public body.

Please see the Appendix A attached hereto. In keeping with our standard practice, it is our intention to post this letter on the Newfoundland and Labrador Hydro website.

Please be advised that you may ask the Information and Privacy Commissioner to review the processing of your access request, as set out in section 42 of **the Access to Information and**

**Protection of Privacy Act, 2015** (the Act) (a copy of this section has been enclosed for your reference). A request to the Commissioner must be made in writing within 15 business days of the date of this letter or within a longer period that may be allowed by the Commissioner.

The appeal may be addressed to the Information and Privacy Commissioner as follows:

Office of the Information and Privacy Commissioner  
2 Canada Drive  
P. O. Box 13004, Stn. A  
St. John's, NL. A1B 3V8

Telephone: (709) 729-6309  
Toll-Free: 1-877-729-6309  
Email: [commissioner@oipc.nl.ca](mailto:commissioner@oipc.nl.ca)

You may also appeal directly to the Supreme Court within 15 business days after you receive the decision of the public body, pursuant to section 52 of the Act (a copy of this section has been enclosed for your reference).

If you have any further questions, please contact me by telephone at (709) 733-5346 or by email at [CassandraHearn@nlh.nl.ca](mailto:CassandraHearn@nlh.nl.ca).

Sincerely,

*Cassandra Hearn*

Cassandra Hearn  
Access and Privacy Officer

**Access or correction complaint**

42. (1) A person who makes a request under this Act for access to a record or for correction of personal information may file a complaint with the commissioner respecting a decision, act or failure to act of the head of the public body that relates to the request.
- (2) A complaint under subsection (1) shall be filed in writing not later than 15 business days
- (a) after the applicant is notified of the decision of the head of the public body, or the date of the act or failure to act; or
- (b) after the date the head of the public body is considered to have refused the request under subsection 16(2).
- (3) A third party informed under section 19 of a decision of the head of a public body to grant access to a record or part of a record in response to a request may file a complaint with the commissioner respecting that decision.
- (4) A complaint under subsection (3) shall be filed in writing not later than 15 business days after the third party is informed of the decision of the head of the public body.
- (5) The commissioner may allow a longer time period for the filing of a complaint under this section.
- (6) A person or third party who has appealed directly to the Trial Division under subsection 52(1) or 53(1) shall not file a complaint with the commissioner.
- (7) The commissioner shall refuse to investigate a complaint where an appeal has been commenced in the Trial Division.
- (8) A complaint shall not be filed under this section with respect to
- (a) a request that is disregarded under section 21;
- (b) a decision respecting an extension of time under section 23;
- (c) a variation of a procedure under section 24; or
- (d) an estimate of costs or a decision not to waive a cost under section 26.
- (9) The commissioner shall provide a copy of the complaint to the head of the public body concerned.

**Direct appeal to Trial Division by an applicant**

52. (1) Where an applicant has made a request to a public body for access to a record or correction of personal information and has not filed a complaint with the commissioner under section 42, the applicant may appeal the decision, act or failure to act of the head of the public body that relates to the request directly to the Trial Division.
- (2) An appeal shall be commenced under subsection (1) not later than 15 business days
- (a) after the applicant is notified of the decision of the head of the public body, or the date of the act or failure to act; or
- (b) after the date the head of the public body is considered to have refused the request under subsection 16(2).
- (3) Where an applicant has filed a complaint with the commissioner under section 42 and the commissioner has refused to investigate the complaint, the applicant may commence an appeal in the Trial Division of the decision, act or failure to act of the head of the public body that relates to the request for access to a record or for correction of personal information.
- (4) An appeal shall be commenced under subsection (3) not later than 15 business days after the applicant is notified of the commissioner's refusal under subsection 45(2).

## Appendix A

Daily sales of electricity produced by CF(L)Co in May 2025 has been withheld in full under the following sections of ATIPPA: 34(1)(a)(i), 35(1)(d), and 35(1)(g). However, the information is disclosed on a quarterly basis in our financial statements available on our website:

<https://nlhydro.com/about-us/publications/> (for 2021-2025)

\*Please note 2026 is not yet available.

For 2015-2020 please see the attached copies of the financial statements.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**FINANCIAL STATEMENTS**  
**December 31, 2015**

## Independent Auditor's Report

To the Shareholders of Churchill Falls (Labrador) Corporation Limited

We have audited the accompanying financial statements of Churchill Falls (Labrador) Corporation Limited, which comprise the statement of financial position as at December 31, 2015 and the statements of profit and comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Churchill Falls (Labrador) Corporation Limited as at December 31, 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Deloitte LLP*

Chartered Professional Accountants  
March 11, 2016

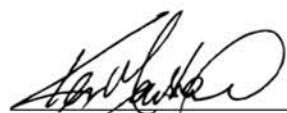
**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**STATEMENT OF FINANCIAL POSITION**

<i>As at December 31 (thousands of Canadian dollars)</i>	Notes	2015	2014 (Note 25)
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	5	54,924	26,611
Short-term investments		-	5,007
Trade and other receivables	6	23,782	21,307
Inventories	7	18,753	17,686
Prepayments		1,932	1,883
<b>Total current assets</b>		<b>99,391</b>	<b>72,494</b>
Non-current assets			
Property, plant and equipment	8	615,457	582,970
Intangible assets	9	668	570
Investment in joint venture	10	1,853	2,242
Reserve fund	11	47,015	51,999
Long-term related party receivable		7	7
<b>Total assets</b>		<b>764,391</b>	<b>710,282</b>
<b>LIABILITIES AND EQUITY</b>			
Current liabilities			
Trade and other payables	12	27,841	25,212
Rental and royalty payable		7,752	4,724
Current portion of deferred contributions	13	783	783
<b>Total current liabilities</b>		<b>36,376</b>	<b>30,719</b>
Non-current liabilities			
Deferred contributions	13	12,351	13,134
Decommissioning liabilities	14	1,296	1,197
Long-term related party payable		-	1,120
Employee benefits liability	15	31,339	33,102
<b>Total liabilities</b>		<b>81,362</b>	<b>79,272</b>
Shareholders' equity			
Share capital	16	82,900	82,900
Shareholder contributions	16	4,966	4,844
Reserves		(7,205)	(10,911)
Retained earnings		602,368	554,177
<b>Total equity</b>		<b>683,029</b>	<b>631,010</b>
<b>Total liabilities and equity</b>		<b>764,391</b>	<b>710,282</b>

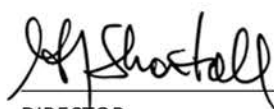
Commitments and contingencies (Note 22)

*See accompanying notes*

On behalf of the Board:



DIRECTOR



DIRECTOR

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

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	Notes	2015	2014
Power sales		<b>116,525</b>	77,166
Guaranteed winter availability		<b>36,637</b>	32,141
Rental of rights and facilities to Twin Falls		-	735
Other revenue	13	<b>783</b>	783
<b>Revenue</b>		<b>153,945</b>	110,825
Operating costs	17	<b>69,178</b>	62,929
Depreciation and amortization	8,9	<b>21,239</b>	19,234
Net finance (income) expense	18	<b>(1,640)</b>	(1,800)
Other (income) expense	19	<b>2,871</b>	2,720
Share of loss (profit) of joint venture	10	<b>389</b>	(560)
<b>Profit for the year</b>		<b>61,908</b>	28,302
<b>Other comprehensive income (loss) for the year</b>		<b>3,706</b>	(4,572)
<b>Total comprehensive income for the year</b>		<b>65,614</b>	23,730

*See accompanying notes*

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

<i>(thousands of Canadian dollars)</i>	Notes	Share Capital	Shareholder Contributions	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
<b>Balance at January 1, 2015</b>		<b>82,900</b>	<b>4,844</b>	<b>953</b>	<b>(11,864)</b>	<b>554,177</b>	<b>631,010</b>
<b>Profit for the year</b>		-	-	-	-	<b>61,908</b>	<b>61,908</b>
<b>Other comprehensive income</b>							
<b>Net change in fair value of available for sale financial instruments<sup>1</sup></b>		-	-	<b>(10)</b>	-	-	<b>(10)</b>
<b>Net change in fair value of financial instruments reclassified to profit or loss</b>		-	-	<b>(92)</b>	-	-	<b>(92)</b>
<b>Actuarial gain on employee benefits liability<sup>2</sup></b>	<b>15</b>	-	-	-	<b>3,808</b>	-	<b>3,808</b>
<b>Total comprehensive (loss) income for the year</b>		-	-	<b>(102)</b>	<b>3,808</b>	<b>61,908</b>	<b>65,614</b>
<b>Shareholder contributions</b>	<b>16</b>	-	<b>122</b>	-	-	-	<b>122</b>
<b>Preferred dividends</b>	<b>16</b>	-	-	-	-	<b>(13,717)</b>	<b>(13,717)</b>
<b>Balance at December 31, 2015</b>		<b>82,900</b>	<b>4,966</b>	<b>851</b>	<b>(8,056)</b>	<b>602,368</b>	<b>683,029</b>
Balance at January 1, 2014		82,900	4,605	1,248	(7,587)	533,674	614,840
Profit for the year		-	-	-	-	28,302	28,302
Other comprehensive income							
Net change in fair value of available for sale financial instruments <sup>1</sup>		-	-	99	-	-	99
Net change in fair value of financial instruments reclassified to profit or loss		-	-	(394)	-	-	(394)
Actuarial loss on employee benefits liability <sup>2</sup>	15	-	-	-	(4,277)	-	(4,277)
<b>Total comprehensive (loss) income for the year</b>		-	-	<b>(295)</b>	<b>(4,277)</b>	<b>28,302</b>	<b>23,730</b>
Shareholder contributions	16	-	239	-	-	-	239
Preferred dividends	16	-	-	-	-	(7,799)	(7,799)
Balance at December 31, 2014		82,900	4,844	953	(11,864)	554,177	631,010

<sup>1</sup>Subsequently reclassified to profit or loss on derecognition

<sup>2</sup>Not subsequently reclassified to profit or loss

See accompanying notes

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

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	Notes	2015	2014
Cash provided from (used in)			
Operating activities			
Profit for the year		<b>61,908</b>	28,302
Adjusted for items not involving a cash flow:			
Depreciation and amortization	8,9	<b>21,239</b>	19,234
Amortization of deferred contributions	13	<b>(783)</b>	(783)
Employee benefits		<b>2,045</b>	1,869
Loss on disposal of property, plant and equipment	19	<b>1,064</b>	1,068
Accretion of decommissioning liability	14	<b>48</b>	55
Share of loss (profit) of joint venture	10	<b>389</b>	(560)
		<b>85,910</b>	49,185
Changes in non-cash working capital balances	24	<b>2,066</b>	(2,562)
Net cash provided from operating activities		<b>87,976</b>	46,623
Investing activities			
Additions to property, plant and equipment	8	<b>(54,738)</b>	(49,865)
Additions to intangible assets	9	<b>(217)</b>	(165)
Decrease (increase) in short-term investments		<b>5,007</b>	(5,007)
Withdrawals from reserve fund	11	<b>4,973</b>	24,848
Net discount on reserve fund	11	<b>(91)</b>	(394)
Proceeds on disposal of property, plant and equipment		<b>118</b>	39
Net cash used in investing activities		<b>(44,948)</b>	(30,544)
Financing activities			
(Decrease) increase in long-term related party payable		<b>(1,120)</b>	953
Increase in shareholder contributions	16	<b>122</b>	239
Preferred dividends	16	<b>(13,717)</b>	(7,799)
Net cash used in financing activities		<b>(14,715)</b>	(6,607)
Net increase in cash and cash equivalents		<b>28,313</b>	9,472
Cash and cash equivalents, beginning of year		<b>26,611</b>	17,139
Cash and cash equivalents, end of year		<b>54,924</b>	26,611

Supplementary cash flow information (Note 24)

See accompanying notes

# CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

## NOTES TO FINANCIAL STATEMENTS

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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 (MW). 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 (the Lease) 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. The head and corporate office for Churchill Falls is located in St. John's, Newfoundland and Labrador. 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.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 Statement of Compliance and Basis of Measurement

These annual audited financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Churchill Falls has adopted accounting policies which are based on the IFRS applicable as at December 31, 2015, and include individual IFRS, International Accounting Standards (IAS), and interpretations made by the IFRS Interpretations Committee and the Standing Interpretations Committee.

These annual audited financial statements have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets which have been measured at fair value. The annual audited financial statements are presented in Canadian Dollars and all values rounded to the nearest thousand, except when otherwise noted. The annual audited financial statements were approved by Churchill Falls' Board of Directors on February 26, 2016.

#### 2.2 Cash and Cash Equivalents and Short-term Investments

Cash and cash equivalents consist of amounts on deposit with a Schedule 1 Canadian Chartered bank, as well as highly liquid investments with maturities of three months or less. Investments with maturities greater than three months and less than twelve months are classified as short-term investments. At December 31, 2015 there were no cash equivalents or short-term investments (2014 - \$12,513). Cash and cash equivalents are measured at cost, which approximates fair value, while short-term investments are measured at fair value.

#### 2.3 Trade and Other Receivables

Trade and other receivables are classified as loans and receivables and are measured at amortized cost using the effective interest method.

#### 2.4 Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes expenditures incurred in acquiring the inventories and bringing them to their existing condition and location. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

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**2.5 Property, Plant and Equipment**

Items of property, plant and equipment are recognized using the cost model and thus are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes materials, labour, contracted services, professional fees and, for qualifying assets, borrowing costs capitalized in accordance with Churchill Falls' accounting policy outlined in Note 2.7. Costs capitalized with the related asset include all those costs directly attributable to bringing the asset into operation. When significant parts of property, plant and equipment are required to be replaced at intervals, Churchill Falls recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repairs and maintenance costs are recognized in the Statement of Profit and Comprehensive Income as incurred. Property, plant and equipment are not revalued for financial reporting purposes. Depreciation of these assets commences when the assets are ready for their intended use.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Hydroelectric generation plant	45 to 100 years
Transmission and terminals	30 to 65 years
Service facilities and other	5 to 45 years

The assets' residual values, useful lives and method of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate. The carrying value of property, plant and equipment is reviewed for impairment whenever events indicate that the carrying amounts of those assets may not be recoverable.

**2.6 Intangible Assets**

Intangible assets that are expected to generate future economic benefit and are measurable, including computer software costs, costs of technical services, and studies are capitalized as intangible assets in accordance with IAS 38.

Intangible assets with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. The estimated useful life and amortization method are reviewed at the end of each year, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

Amortization is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Computer software	5 to 45 years
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**2.7 Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in the Statement of Profit and Comprehensive Income in the period in which they are incurred.

**2.8 Impairment of Non-Financial Assets**

At the end of each reporting period, Churchill Falls reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

## CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

### NOTES TO FINANCIAL STATEMENTS

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Where it is not possible to estimate the recoverable amount of an individual asset, Churchill Falls estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from non-financial assets.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the Statement of Profit and Comprehensive Income.

#### 2.9 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 33.33% 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.

#### 2.10 Employee Benefits Liability

(i) Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. Contributions by Churchill Falls to this Plan are recognized as an expense when employees have rendered service entitling them to the contributions. Liabilities associated with this Plan are held with the Province.

(ii) Other Benefits

Churchill Falls provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a severance payment upon retirement.

The cost of providing these benefits is determined using the projected unit credit method, with actuarial valuations being completed every three years and extrapolated at the end of each reporting period based on service and management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

Actuarial gains and losses on Churchill Falls' defined benefit obligation are recognized in reserves in the period in which they occur. Past service costs are recognized in operating costs as incurred.

The retirement benefit obligation recognized in the Statement of Financial Position represents the present value of the defined benefit obligation.

## CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

### NOTES TO FINANCIAL STATEMENTS

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#### 2.11 Provisions

A provision is a liability of uncertain timing or amount. A provision is recognized if Churchill Falls has a present legal obligation or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. The provision is measured at the present value of the best estimate of the expenditures expected to be required to settle the obligation using a discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. Provisions are re-measured at each Statement of Financial Position date using the current discount rate.

#### 2.12 Decommissioning, Restoration and Environmental Liabilities

Legal and constructive obligations associated with the retirement of property, plant and equipment are recorded as liabilities when those obligations are incurred and are measured as the present value of the expected costs to settle the liability, discounted at a rate specific to the liability. The liability is accreted up to the date the liability will be incurred with a corresponding charge to net finance (income) expense. The carrying amount of decommissioning, restoration and environmental liabilities is reviewed annually with changes in the estimates of timing or amount of cash flows added to or deducted from the cost of the related asset or expensed in the Statement of Profit and Comprehensive Income if the liability is short-term in nature.

#### 2.13 Revenue Recognition

Revenue from the sale of energy is recognized when Churchill Falls has transferred the significant risks and rewards of ownership to the buyer, recovery of the consideration is probable, and the amount of revenue can be reliably measured. Sales within the Province are primarily at rates approved by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB), whereas export sales and sales to certain major industrial customers are either at rates under the terms of the applicable contracts, or at market rates.

Churchill Falls provides energy to two primary customers: Hydro-Québec and Hydro.

A power contract with Hydro-Québec dated May 12, 1969 (the Power Contract) provides for the sale of a significant amount of the energy from Churchill Falls. The Power Contract has a 40-year term ending in 2016, which is followed by a Renewed Power Contract with Hydro-Québec for an additional 25 years. The rate is predetermined in the Power Contract and is presently 2.5426 mills per kWh. The rate during the term of the Renewed Power Contract is 2.0 mills per kWh.

Churchill Falls also recognizes revenue from Hydro-Québec under a Guaranteed Winter Availability Contract (GWAC) through 2041. The GWAC was signed with Hydro-Québec in 1998 and provides for the sale of 682 MW of guaranteed seasonal availability to Hydro-Québec during the months of November through March in each of the remaining years until 2041.

The value of differences between energy delivered and the Annual Energy Base (AEB), as defined in the Power Contract, is tracked over a four-year period and then either recovered from or refunded to Hydro-Québec over the subsequent four-year period, unless the balance is less than \$1.0 million in which case it is recovered or refunded immediately. These long-term receivables or long-term payables are subject to interest at 7% per annum (2014 - 7%).

Under the Power Contract and Renewed Power Contract, Churchill Falls has the right to recall 300 MW (Recall Power). All of the Recall Power is sold by Churchill Falls to Hydro. Churchill Falls also provides 225 MW to Hydro.

#### 2.14 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

##### Lessor accounting

Amounts due from lessees under finance leases are recognized as receivables at the amount of Churchill Falls' net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on Churchill Falls' net investment outstanding in respect of the leases.

## CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

### NOTES TO FINANCIAL STATEMENTS

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Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

#### Lessee accounting

Assets held under finance leases are initially recognized as assets of Churchill Falls' at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with Churchill Falls' general policy on borrowing costs (Note 2.7). Contingent rental costs are recognized as operating costs in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### **2.15 Net Finance (Income) Expense**

For all financial instruments measured at amortized cost and interest bearing financial assets classified as (AFS), interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

#### **2.16 Foreign Currencies**

Transactions in currencies other than Churchill Falls' functional currency (foreign currencies) are recognized using the exchange rate in effect at the date of the transaction, approximated by the prior month end close rate. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates of exchange in effect at the period end date. Foreign exchange gains and losses are included in the Statement of Profit and Comprehensive Income as other income (expense).

#### **2.17 Income Taxes**

Churchill Falls is exempt from paying income taxes under Section 149(1) (d.2) of the Income Tax Act.

#### **2.18 Financial Instruments**

Financial assets and financial liabilities are recognized in the Statement of Financial Position when Churchill Falls becomes a party to the contractual provisions of the instrument and are initially measured at fair value. Subsequent measurement is based on classification. Financial instruments are classified into the following specified categories: financial assets at fair value through profit or loss (FVTPL), AFS financial assets, loans and receivables, held-to-maturity investments, financial liabilities at FVTPL, financial instruments used for hedging and other financial liabilities. The classification depends on the nature and purpose of the financial instruments and is determined at the time of initial recognition.

## CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

### NOTES TO FINANCIAL STATEMENTS

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#### Classification of Financial Instruments

Churchill Falls has classified each of its financial instruments into the following categories: loans and receivables, AFS financial assets, and other financial liabilities.

Cash and cash equivalents	Loans and receivables
Short-term investments	AFS financial assets
Trade and other receivables	Loans and receivables
Reserve fund	AFS financial assets
Long-term related party receivable	Loans and receivables
Trade and other payables	Other financial liabilities
Rental and royalty payable	Other financial liabilities
Long-term related party payable	Other financial liabilities

#### (i) Effective Interest Method

The effective interest method is a method of calculating the amortized cost of a financial instrument and allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income or expense is recognized on an effective interest basis for financial instruments other than those financial assets or liabilities classified as at FVTPL.

#### Financial Assets

#### (ii) AFS Financial Assets

AFS financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the previous categories. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the fair value reserve with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified to profit or loss.

#### (iii) Loans and Receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

#### Financial Liabilities and Equity Instruments

#### (iv) Other Financial Liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

## **CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **2.19 Derecognition of Financial Instruments**

Churchill Falls derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If Churchill Falls neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, its retained interest in the asset and an associated liability for amounts it may have to pay is recognized. If Churchill Falls retains substantially all the risks and rewards of ownership of a transferred financial asset, it continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received. Churchill Falls derecognizes financial liabilities when, and only when, its obligations are discharged, cancelled or they expire.

#### **2.20 Impairment of Financial Assets**

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- the borrower, more probable than not, entering into bankruptcy or financial re-organization

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include Churchill Falls' past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income (loss) are reclassified to profit or loss in the period.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

#### **2.21 Government Grants**

Government grants are recognized when there is reasonable assurance that Churchill Falls will comply with the associated conditions and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which Churchill Falls recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that Churchill Falls should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue in the Statements of Financial Position and transferred to the Statement of Profit and Comprehensive Income on a systematic and rational basis over the useful lives of the related assets.

## CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

### NOTES TO FINANCIAL STATEMENTS

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Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to Churchill Falls with no future related costs are recognized in the Statement of Profit and Comprehensive Income in the period in which they become receivable.

### 3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the annual audited financial statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ materially from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is reviewed if the revision affects only that period or in future periods.

#### 3.1 Use of Estimates

(i) Property, Plant and Equipment

Amounts recorded for depreciation are based on the useful lives of Churchill Falls' assets. The useful lives of property, plant and equipment are determined by independent specialists and reviewed annually by Churchill Falls. These useful lives are Management's best estimate of the service lives of these assets. Changes to these lives could materially affect the amount of depreciation recorded.

(ii) Decommissioning Liabilities

Churchill Falls recognizes a liability for the fair value of the future expenditures required to settle obligations associated with the retirement of property, plant and equipment. Decommissioning liabilities are recorded as a liability at fair value, with a corresponding increase to property, plant and equipment. Accretion of decommissioning liabilities is included in the Statement of Profit and Comprehensive Income through net finance (income) expense. Differences between the recorded decommissioning liabilities and the actual decommissioning costs incurred are recorded as a gain or loss in the settlement period.

(iii) Employee Benefits

Churchill Falls provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a severance payment upon retirement. The expected cost of providing these other employee benefits is accounted for on an accrual basis, and has been actuarially determined using the projected unit credit method prorated on service, and Management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

(iv) Revenue

In the absence of a signed agreement with Hydro-Québec relating to the Annual Energy Base (AEB), Churchill Falls continues to apply the terms of the previous agreement which expired August 31, 2012. Management continues to work to negotiate terms of a new agreement.

#### 3.2 Use of Judgment

Property, Plant and Equipment

Churchill Falls' accounting policy relating to property, plant and equipment is described in Note 2.5. In applying this policy, judgment is used in determining whether certain costs are additions to the carrying amount of the property, plant and equipment as opposed to repairs and maintenance. If an asset has been developed, judgment is required to identify the point at which the asset is capable of being used as intended and to identify the directly attributable borrowing costs to be included in the carrying value of the development asset. Judgment is also used in determining the appropriate componentization structure for Churchill Falls' property, plant and equipment.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

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**4. FUTURE CHANGES IN ACCOUNTING POLICIES**

Churchill Falls has not applied the following new and revised IFRS that have been issued but are not yet effective:

Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations <sup>1</sup>
Amendments to IAS 1	Disclosure Initiative <sup>1</sup>
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization <sup>1</sup>
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>1</sup>
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception <sup>1</sup>
IFRS 9	Financial Instruments <sup>2</sup>
IFRS 15	Revenue from Contracts with Customers <sup>2</sup>
IFRS 16	Leases <sup>3</sup>

<sup>1</sup>Effective for annual periods beginning on or after January 1, 2016, with earlier application permitted.

<sup>2</sup>Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

<sup>3</sup>Effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

**4.1 Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations**

The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (i.e. IAS 36 Impairment of Assets regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

Management does not anticipate that the application of these amendments to IFRS 11 will have a material impact on Churchill Falls' annual financial statements.

**4.2 Amendments to IAS 1 Disclosure Initiative**

The amendments to IAS 1 give some guidance on how to apply the concept of materiality in practice. Management does not anticipate that the application of these amendments to IAS 1 will have a material impact on Churchill Falls' annual audited financial statements.

**4.3 Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization**

The amendments to IAS 16 prohibit entities from using revenue-based depreciation methods for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- (a) when the intangible asset is expressed as a measure of revenue, or
- (b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after January 1, 2016. Currently, the Company uses the straight-line methods for depreciation and amortization of its property, plant and equipment, and intangible assets respectively.

Management believes that the straight-line method is the most appropriate method to reflect the consumption of economic benefit inherent in the respective assets and accordingly does not anticipate that the application of these amendments to IAS 16 and IAS 38 will have a material impact on Churchill Falls' annual audited financial statements.

**4.4 Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments to IFRS 10 and IAS 28 deal with situations where there is a single sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investor's interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investor's interest in the new associate or joint venture.

Management does not anticipate that the application of these amendments to IFRS 10 and IAS 28 will have a material impact on Churchill Falls' annual audited financial statements in future periods should such transactions arise.

**4.5 Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception**

The amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. The amendments further clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.

Management does not anticipate that the application of these amendments to IFRS 10, IFRS 12 and IAS 28 will have a material impact on Churchill Falls' annual audited financial statements as Churchill Falls' not an investment entity and does not have any holding company, subsidiary, associate or joint venture that qualifies as an investment entity.

**4.6 IFRS 9 Financial Instruments**

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include:

- a) impairment requirements for financial assets; and
- b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortized cost or fair value. Specifically, debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt instruments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present

subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- With regard to the measurement of financial liabilities designated as at FVTPL, IFRS 9 requires that the amount of change in the fair value of the financial liability attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Management anticipates that the application of IFRS 9 in the future may have a material impact on the amounts reported and disclosures made in Churchill Falls' annual audited financial statements; however, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until Management performs a detailed review.

#### **4.7 IFRS 15 Revenue from Contracts with Customers**

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a five-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Management anticipates that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in Churchill Falls' annual audited financial statements; however, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until Management performs a detailed review.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

**4.8 IFRS 16 Leases**

On January 13, 2016, the IASB issued IFRS 16 which provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS 17 Leases and its associated interpretive guidance. Significant changes were made to lessee accounting with the distinction between operating and finance leases removed and assets and liabilities recognized in respect of all leases (subject to limited exceptions for short-term leases and leases of low value assets). In contrast, IFRS 16 does not include significant changes to the requirements for lessors. IFRS 16 is effective January 1, 2019 with earlier application permitted for companies that have also adopted IFRS 15 Revenue from Contracts with Customers.

Management anticipates that the application of IFRS 16 in the future may have a material impact on the amounts reported and disclosures made in Churchill Falls' annual audited financial statements; however, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until Management performs a detailed review.

**5. CASH AND CASH EQUIVALENTS**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2015</b>	2014
Cash	<b>54,924</b>	19,105
Cash equivalents	-	7,506
	<b>54,924</b>	26,611

The effective interest rate on cash equivalents and short-term investments at December 31, 2015 ranged from 1.21% to 1.23% (2014 - 1.21% to 1.23% ) per annum.

**6. TRADE AND OTHER RECEIVABLES**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2015</b>	2014
Due from related parties	<b>21,200</b>	19,236
Other receivables	<b>2,582</b>	2,071
	<b>23,782</b>	21,307

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2015</b>	2014
0-60 days	<b>22,801</b>	21,193
60+ days	<b>981</b>	114
	<b>23,782</b>	21,307

**7. INVENTORIES**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2015</b>	2014
Materials and other	<b>15,938</b>	14,879
Construction aggregates	<b>2,701</b>	2,701
Fuel	<b>114</b>	106
	<b>18,753</b>	17,686

The cost of inventories recognized as an expense during the year is \$2.8 million (2014 - \$2.1 million).

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

**8. PROPERTY, PLANT AND EQUIPMENT**

<i>(thousands of Canadian dollars)</i>	Hydroelectric Generation Plant	Transmission and Terminals	Service Facilities and Other	Construction in Progress	Total
<b>Cost</b>					
Balance at January 1, 2014	740,861	225,140	166,629	12,912	1,145,542
Additions	(116)	(89)	(48)	50,118	49,865
Decommissioning liabilities and revisions	-	105	-	-	105
Disposals	(2,610)	(605)	(1,018)	-	(4,233)
Transfers	22,145	10,542	11,894	(44,581)	-
<b>Balance at December 31, 2014</b>	<b>760,280</b>	<b>235,093</b>	<b>177,457</b>	<b>18,449</b>	<b>1,191,279</b>
<b>Additions</b>	<b>(34)</b>	<b>-</b>	<b>-</b>	<b>54,772</b>	<b>54,738</b>
<b>Decommissioning liabilities and revisions</b>	<b>-</b>	<b>51</b>	<b>-</b>	<b>-</b>	<b>51</b>
<b>Disposals</b>	<b>(2,762)</b>	<b>(1,167)</b>	<b>(2,738)</b>	<b>-</b>	<b>(6,667)</b>
<b>Transfers</b>	<b>19,255</b>	<b>15,830</b>	<b>15,318</b>	<b>(50,403)</b>	<b>-</b>
<b>Balance at December 31, 2015</b>	<b>776,739</b>	<b>249,807</b>	<b>190,037</b>	<b>22,818</b>	<b>1,239,401</b>
<b>Depreciation</b>					
Balance at January 1, 2014	397,164	125,320	69,812	-	592,296
Depreciation	9,276	2,776	7,087	-	19,139
Disposals	(1,774)	(467)	(885)	-	(3,126)
<b>Balance at December 31, 2014</b>	<b>404,666</b>	<b>127,629</b>	<b>76,014</b>	<b>-</b>	<b>608,309</b>
<b>Depreciation</b>	<b>9,876</b>	<b>3,635</b>	<b>7,609</b>	<b>-</b>	<b>21,120</b>
<b>Disposals</b>	<b>(2,124)</b>	<b>(920)</b>	<b>(2,441)</b>	<b>-</b>	<b>(5,485)</b>
<b>Balance at December 31, 2015</b>	<b>412,418</b>	<b>130,344</b>	<b>81,182</b>	<b>-</b>	<b>623,944</b>
<b>Carrying value</b>					
Balance at January 1, 2014	343,697	99,820	96,817	12,912	553,246
Balance at December 31, 2014	355,614	107,464	101,443	18,449	582,970
<b>Balance at December 31, 2015</b>	<b>364,321</b>	<b>119,463</b>	<b>108,855</b>	<b>22,818</b>	<b>615,457</b>

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

**9. INTANGIBLE ASSETS**

<i>(thousands of Canadian dollars)</i>	Software
Cost	
Balance at January 1, 2014	856
Additions	165
Decommissioning liability revisions	-
Disposals	-
Balance at December 31, 2014	1,021
<b>Additions</b>	<b>217</b>
<b>Disposals</b>	<b>-</b>
<b>Balance at December 31, 2015</b>	<b>1,238</b>
Amortization	
Balance at January 1, 2014	356
Amortization	95
Disposals	-
Transfers	-
Balance at December 31, 2014	451
<b>Amortization</b>	<b>119</b>
<b>Disposals</b>	<b>-</b>
<b>Balance at December 31, 2015</b>	<b>570</b>
Carrying value	
Balance at January 1, 2014	500
Balance at December 31, 2014	570
<b>Balance at December 31, 2015</b>	<b>668</b>

Intangible assets consist of computer software costs, amortized on a straight-line basis over their finite useful lives ranging between 7 and 10 years.

**10. INVESTMENT IN JOINT VENTURE**

Churchill Falls holds a 33.33% equity shareholding and majority voting power in Twin Falls, subject to the provisions of the Participation Agreement. Twin Falls is incorporated under the laws of Canada and has developed a 225 MW hydroelectric generating plant on the Unknown River in Labrador. The plant has been inoperative since 1974. There has been no change in Churchill Falls' ownership or voting interest during the year.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
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The following is summarized financial information with respect to Twin Falls:

<i>(thousands of Canadian dollars)</i>	<b>2015</b>	<b>2014</b>
Current assets	<b>5,898</b>	10,325
Non-current assets	<b>346</b>	388
Current liabilities	<b>630</b>	3,885
Non-current liabilities	<b>53</b>	100
Net assets	<b>5,561</b>	6,728
Churchill Falls' share of net assets	<b>1,853</b>	2,242
Total revenue	-	4,904
Total (loss) profit	<b>(1,167)</b>	1,681
Churchill Falls' share of (loss) profit	<b>(389)</b>	560

The above amounts of assets and liabilities include the following:

Cash and cash equivalents	<b>5,558</b>	1,369
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**11. RESERVE FUND**

In 2007, and pursuant to the terms of the Shareholders' Agreement, Churchill Falls commenced the creation of a \$75.0 million segregated reserve fund to contribute towards the funding of capital expenditures related to Churchill Falls' existing facilities and their replacement. Churchill Falls invested \$17.0 million in each of 2007, 2008 and 2009 and \$8.0 million in each of 2010, 2011 and 2012. In October 2014, \$23.4 million was withdrawn to fund a portion of 2014 capital expenditures. In December 2015, \$5.0 million was withdrawn to fund a portion of 2015 capital expenditures. As per the terms of the Shareholders' Agreement, these funds will be replaced over a five year period beginning in 2017.

This fund must remain in place until the end of the Shareholders' Agreement in 2041. Any amounts removed to fund capital expenditures must be replaced. Reserve fund holdings consist of securities issued by the Government of Canada, various provinces of Canada and Schedule 1 and 2 Canadian Chartered Banks.

The reserve fund consists of the following:

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2015</b>	<b>2014</b>
Balance, beginning of year	<b>51,999</b>	76,748
Principal withdrawals	<b>(4,972)</b>	(23,358)
Earnings withdrawn	<b>(1)</b>	(1,490)
Net discount	<b>91</b>	394
Mark-to-market adjustment	<b>(102)</b>	(295)
Fair value of reserve fund	<b>47,015</b>	51,999

**12. TRADE AND OTHER PAYABLES**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2015</b>	<b>2014</b>
Trade payables	<b>23,601</b>	21,411
Payables due to related parties	<b>2,790</b>	2,812
Other payables	<b>1,450</b>	989
	<b>27,841</b>	25,212

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

**13. DEFERRED CONTRIBUTIONS**

Churchill Falls has received contributions in aid of construction of property, plant and equipment. These contributions are deferred and amortized to other revenue over the life of the related item of property, plant and equipment.

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2015</b>	2014
Deferred contributions, beginning of year	<b>13,917</b>	14,700
Amortization	<b>(783)</b>	(783)
Deferred contributions, end of year	<b>13,134</b>	13,917
Less: current portion	<b>(783)</b>	(783)
	<b>12,351</b>	13,134

**14. DECOMMISSIONING LIABILITIES**

Churchill Falls has recognized liabilities associated with the disposal of polychlorinated biphenyls (PCB).

The reconciliation of the beginning and ending carrying amounts of decommissioning liabilities for December 31, 2015 and December 31, 2014 are as follows:

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2015</b>	2014
Decommissioning liabilities, beginning of year	<b>1,197</b>	1,037
Accretion	<b>48</b>	55
Revisions	<b>51</b>	105
Decommissioning liabilities, end of year	<b>1,296</b>	1,197

The total estimated undiscounted cash flows required to settle the PCB obligations at December 31, 2015 are \$1.3 million (2014 - \$1.3 million). The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at the Company's credit adjusted risk free rate of 3.8% (2014 - 4.6%).

**15. EMPLOYEE BENEFITS LIABILITY**

**15.1 Pension Plan**

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions of \$2,400,000 (2014 - \$1,699,000) are expensed as incurred.

**15.2 Other Benefits**

Churchill Falls provides group life insurance and healthcare benefits on a cost shared basis to retired employees, and in certain cases, their surviving spouses, in addition to a severance payment upon retirement. In 2015, cash payments to beneficiaries for its unfunded other employee future benefits were \$831,000 (2014 - \$661,000). An actuarial valuation was performed as at December 31, 2015.

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2015</b>	2014
Accrued benefit obligation		
Balance, beginning of year	<b>33,102</b>	26,956
Current service cost	<b>1,443</b>	1,143
Interest cost	<b>1,433</b>	1,387
Benefits paid	<b>(831)</b>	(661)
Actuarial (gain) loss	<b>(3,808)</b>	4,277
Balance, end of year	<b>31,339</b>	33,102

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
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<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2015</b>	2014
Component of benefit cost		
Current service cost	<b>1,443</b>	1,143
Interest cost	<b>1,433</b>	1,387
<b>Total benefit expense for the year</b>	<b>2,876</b>	2,530

The significant actuarial assumptions used in measuring the accrued benefit obligations and benefit expenses are as follows:

	<b>2015</b>	2014
Discount rate - benefit cost	<b>4.20%</b>	5.00%
Discount rate - accrued benefit obligation	<b>4.10%</b>	4.20%
Rate of compensation increase	<b>3.50%</b>	3.50%

Assumed healthcare trend rates:

	<b>2015</b>	2014
Initial healthcare expense trend rate	<b>6.00%</b>	6.00%
Cost trend decline to	<b>4.50%</b>	4.50%
Year that rate reaches the rate it is assumed to remain at	<b>2025</b>	2020

A 1% change in assumed healthcare trend rates would have had the following effects:

<i>Increase (thousands of Canadian dollars)</i>	<b>2015</b>	2014
Current service and interest cost	<b>682</b>	578
Accrued benefit obligation	<b>6,165</b>	7,432
<i>Decrease (thousands of Canadian dollars)</i>	<b>2015</b>	2014
Current service and interest cost	<b>(484)</b>	(417)
Accrued benefit obligation	<b>(4,602)</b>	(5,506)

**16. SHAREHOLDERS' EQUITY**

**16.1 Share Capital**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2015</b>	2014
Common shares without nominal or par value		
Authorized - unlimited		
Issued, fully paid and outstanding - 8,759,999	<b>82,900</b>	82,900
Preferred shares without nominal or par value		
Authorized - 3		
Issued, fully paid and outstanding - 3	-	-

Additional shares cannot be issued without the approval of a majority of the directors on the Board of Directors, including at least one director nominated by Hydro and one director nominated by Hydro-Québec.

The preferred shares are divided into three classes, one of each has been issued, and the dividends thereon, which rank ahead of dividends on common shares, are as follows:

The Class A Cumulative Preferred Shareholder is entitled to dividend payments calculated as the amount equal to the income taxes which would have been received by the Province had Churchill Falls continued to be a taxable corporation.

The Class B and Class C Redeemable Cumulative Preferred Shareholders are no longer entitled to receive dividends.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

**16.2 Shareholder Contributions**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2015</b>	2014
Total shareholder contributions	<b>4,966</b>	4,844

During 2015, the Churchill Falls (Labrador) Corporation Trust (the Trust) contributed capital of \$122,000 (2014 - \$239,000).

**16.3 Dividends Paid and Proposed**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2015</b>	2014
Declared during the year		
Final preferred dividend for prior year	<b>(26)</b>	573
Interim preferred dividend for current year	<b>13,743</b>	7,226
	<b>13,717</b>	7,799
Proposed for approval, not recognized as payable (receivable) at December 31		
Final dividend underpayment (overpayment) for current year	<b>1,243</b>	(26)

During 2015, Churchill Falls did not pay any common dividends (2014 - \$Nil).

**17. OPERATING COSTS**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2015</b>	2014
Salaries and benefits expense	<b>39,114</b>	37,493
Rental and royalty expense	<b>7,754</b>	4,726
Professional services	<b>6,350</b>	5,451
Maintenance and materials	<b>10,208</b>	11,156
Other operating costs	<b>5,752</b>	4,103
	<b>69,178</b>	62,929

**18. NET FINANCE (INCOME) EXPENSE**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2015</b>	2014
Finance income		
Interest on short-term investments	<b>281</b>	131
Interest on reserve fund	<b>1,365</b>	2,012
Other interest income	<b>155</b>	54
	<b>1,801</b>	2,197
Finance expense		
Net interest on long-term related party payable	<b>60</b>	342
Accretion of decommissioning liability	<b>48</b>	55
Other interest expense	<b>53</b>	-
	<b>161</b>	397
Net finance (income) expense	<b>(1,640)</b>	(1,800)

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

**19. OTHER (INCOME) EXPENSE**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2015</b>	2014
Foreign exchange loss	<b>58</b>	-
Loss on disposal of property, plant and equipment	<b>1,064</b>	1,068
Other asset disposal costs	<b>1,749</b>	1,652
Other (income) expense	<b>2,871</b>	2,720

**20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

**20.1 Fair Value**

The estimated fair values of financial instruments as at December 31, 2015 and December 31, 2014 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 fair value measurement during the years ended December 31, 2015 and December 31, 2014.

As at December 31, 2015 and December 31, 2014, 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>2015</b>		<b>2014</b>	
<b>Financial assets</b>					
Long-term related party receivable	<b>2</b>	<b>7</b>	<b>7</b>	7	7
Reserve fund	<b>2</b>	<b>47,015</b>	<b>47,015</b>	51,999	51,999
<b>Financial liabilities</b>					
Long-term related party payable*	<b>2</b>	<b>476</b>	<b>511</b>	1,120	1,137

\*At December 31, 2015, the long-term related party payable was reclassified to trade and other payables.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
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The fair values of cash and cash equivalents, short-term investments, trade and other receivables, trade and other payables, with the exception of the long-term related party payable, and rental and royalty payable approximate their carrying values due to their short-term maturity.

**20.2 Risk Management**

Churchill Falls is exposed to credit, liquidity and market risks through its operating, investing and financing activities.

Credit Risk

Expected future cash flows are exposed to credit risk through operating activities, primarily due to the potential for non-performance by customers, and through financing activities, based on the risk of non-performance by counterparties to financial instruments. The degree of exposure on cash and cash equivalents, accounts receivable, the reserve fund, long-term payables and receivables and energy sales depends on the financial capacity and stability of those customers and counterparties. The maximum exposure to credit risk on these financial instruments is represented by their carrying values on the balance sheet at the reporting date.

Credit exposure on energy sales is limited, as Churchill Falls' two main customers – Hydro and Hydro Québec – are investment grade utilities.

Credit risk on cash and cash equivalents is limited, as Churchill Falls' cash deposits are held by a Schedule 1 Canadian Chartered bank with a rating of A+ (Standard and Poor's).

Credit exposure on the reserve fund is mitigated by adhering to an investment policy which restricts the holdings to long-term debt instruments issued or guaranteed by the Government of Canada or any province of Canada. Investment in the long-term debt instruments of Canadian banks are also permitted, provided the bank is rated A or higher by Standard and Poor's. With the exception of Government of Canada, holdings of any one issuer are limited to 10% of the total principal amount of the portfolio. The following credit risk table provides information on credit exposures according to issuer type and credit rating for the reserve fund:

	Issuer Credit Rating	Fair Value of Portfolio (%)	Issuer Credit Rating	Fair Value of Portfolio (%)
	2015		2014	
Provincial governments	<b>AA- to AAA</b>	<b>3.48%</b>	AA- to AAA	-
Provincially owned utilities	<b>AA- to AAA</b>	<b>10.17%</b>	AA- to AAA	9.14%
Provincially owned utilities	<b>A- to A+</b>	-	A- to A+	29.28%
Schedule 1 and 2 Canadian banks	<b>AA- to AAA</b>	<b>0.00%</b>	AA- to AAA	2.10%
Schedule 1 Canadian banks	<b>A- to A+</b>	<b>12.70%</b>	A- to A+	9.15%
		<b>60.96%</b>	A- to A+	50.33%
		<b>100.00%</b>		100.00%

Liquidity Risk

Churchill Falls is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. Churchill Falls manages this risk by maintaining borrowing facilities, a minimum cash balance of \$20.0 million (2014 - \$16.0 million) and business interruption insurance. Short-term liquidity is provided through cash and cash equivalents on hand, funds from operations and a \$10.0 million (2014 - \$10.0 million) unsecured credit facility. Long-term liquidity risk is managed by maintenance of the reserve fund in accordance with the June 1999 shareholders' agreement and a dividend management policy that meets long-term liquidity requirements associated with Churchill Falls' capital expenditure program.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

The following are the contractual maturities of Churchill Falls' financial liabilities, including principal and interest, as at December 31, 2015:

<i>(thousands of Canadian dollars)</i>	< 1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	27,841	-	-	-	27,841
Rental and royalty payable	7,752	-	-	-	7,752
	35,593	-	-	-	35,593

Market Risk

Churchill Falls is exposed to possible market price movements that could impact expected future cash flow and the carrying value of certain financial assets and liabilities.

*Interest Rates*

Changes in prevailing interest rates will impact the fair value of financial assets and liabilities classified as available for sale, which includes the reserve fund. Expected future cash flows from these assets and liabilities are also impacted in certain circumstances, such as when available for sale securities are sold prior to maturity. The following table illustrates Churchill Falls' exposure to a 0.5% change in interest rates:

<i>(thousands of Canadian dollars)</i>	Other Comprehensive Income	
	0.5% Decrease	0.5% Increase
Interest on reserve fund	396	363
Interest on short term investments	-	-

*Foreign Currency and Commodity Exposure*

Churchill Falls does not hold any financial instrument whose value would vary due to changes in a commodity price. Cash flow exposure to commodity price and foreign exchange risk arises primarily through investing activities, most notably US dollar denominated capital expenditures, and regular procurement activities. The exposure, however, is considered immaterial.

**21. 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:

Related Party	Relationship
Hydro	65.8% shareholder of Churchill Falls
Hydro-Québec	34.2% shareholder of Churchill Falls
Nalcor Energy	100% shareholder of Hydro
The Province	100% shareholder of Nalcor
Twin Falls	Jointly controlled by Churchill Falls
The Trust	Churchill Falls (Labrador) Corporation Trust was created by the Province with Churchill Falls as the beneficiary

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
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The amounts included in the financial statements for related party transactions are as follows:

		Hydro- Québec	Hydro	Other	Total
<i>(thousands of Canadian dollars)</i>		<b>2015</b>			
<b>Power sales</b>	(a)(d)	<b>72,915</b>	<b>43,610</b>	-	<b>116,525</b>
<b>Guaranteed winter availability</b>	(a)	<b>36,637</b>	-	-	<b>36,637</b>
<b>Operating costs</b>	(b)(c)	-	<b>3,158</b>	<b>9,409</b>	<b>12,567</b>
<b>Net finance (income) expense</b>	(e)	<b>60</b>	-	-	<b>60</b>
<b>Trade and other receivables</b>	(f)	<b>15,972</b>	<b>5,160</b>	<b>68</b>	<b>21,200</b>
<b>Long-term related party receivable</b>		-	-	<b>7</b>	<b>7</b>
<b>Trade and other payables</b>	(c)(e)	<b>1,896</b>	-	<b>894</b>	<b>2,790</b>
<b>Rental and royalty payable</b>	(c)	-	-	<b>7,752</b>	<b>7,752</b>
<i>(thousands of Canadian dollars)</i>		<b>2014</b>			
Power sales	(a)(d)	70,115	6,065	986	77,166
Guaranteed winter availability	(a)	32,141	-	-	32,141
Rental of rights and facilities to Twin Falls	(d)	-	-	735	735
Operating costs	(b)(c)	-	2,841	6,426	9,267
Net finance (income) expense	(e)	342	-	-	342
Trade and other receivables	(f)	15,500	468	3,268	19,236
Long-term related party receivable		-	-	7	7
Trade and other payables	(c)(e)	1,921	-	891	2,812
Rental and royalty payable	(c)	-	-	4,724	4,724
Long-term related party payable	(e)	1,120	-	-	1,120

- (a) Churchill Falls has entered into long-term power contracts with its shareholders for the sale of substantially all of the power produced by the generating plant. During 2015, revenue from Hydro-Québec and Hydro was \$109,552,000 (2014 - \$102,256,000) and \$43,610,000 (2014 - \$6,065,000) respectively.
- (b) For the year ended December 31, 2015, approximately \$4,393,000 (2014 - \$4,335,000) of operating costs were charged from Hydro and Nalcor for engineering, technical, management and administrative services.
- (c) Under the terms of the Lease and amendments thereto, 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, as defined in the Lease. At December 31, 2015, \$7,752,000 (2014 - \$4,724,000) was payable to the Province.
- (d) As a result of a sub-lease between Churchill Falls and Twin Falls, certain rights were suspended by Churchill Falls effective June 30, 1974 with the result that Churchill Falls was diverting the flow of water from the Twin Falls plant and using the facilities of Twin Falls as required. In consideration for this suspension of rights, Churchill Falls was required to deliver to Twin Falls, during the unexpired term of the sub-lease, horsepower equivalent to the installed horsepower of the Twin Falls plant. Twin Falls was obliged to purchase this power for an amount equal to the average annual cost of operating the Twin Falls plant for the five year period ended March 31, 1974. In addition, Twin Falls was required to pay annually to Churchill Falls a rental amounting to \$305,000 and \$1.40 per installed horsepower. Twin Falls also paid to Churchill Falls an annual royalty of \$0.50 per horsepower year generated, as defined, all calculated as though the power delivered by Churchill Falls to Twin Falls had been generated in the Twin Falls plant. This sub-lease expired December 31, 2014.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

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- (e) Churchill Falls tracks the value of differences between energy delivered and the AEB over a four year period. The difference is then recovered from or refunded to Hydro-Québec over the subsequent four year period.

The long-term payable to Hydro-Québec as at December 31, 2015 is the accumulation of differences between energy delivered and the AEB during the four year period from September 1, 2008 to August 31, 2012 and the four year period September 1, 2012 to August 31, 2016. The current portion of \$1,478,000 (2014 - \$1,502,000) is included in trade and other payables. The long-term portion is \$nil (2014 - \$1,120,000) and relates to September 1, 2012 to August 31, 2016.

For the year ended December 31, 2015, net interest expense on the long-term related party payable/receivable was \$60,000 (2014 - \$342,000).

- (f) On February 3, 2010, the Province established the Trust with Churchill Falls as the beneficiary. The purpose of the Trust is to fund the external costs and expenses incurred in relation to the motion filed by Churchill Falls seeking a modification to the pricing terms of the 1969 Power Contract. To date, \$4,949,000 (2014 - \$4,765,000) has been received and \$17,000 (2014 - \$178,000) has been accrued as receivable from the Trust.
- (g) As at December 31, 2015, Churchill Falls capacity penalty payable was \$419,000 (2014 - \$419,000). The capacity penalty relates to the supply of power to Hydro-Québec. Churchill Falls did not incur a capacity penalty in 2015 (2014 - \$nil).

**21.1 Key Management Personnel**

Compensation for key management personnel, which Churchill Falls defines as its executives who have the primary authority and responsibility in planning, directing and controlling the activities of the entity, includes compensation for senior executives. Salaries and employee benefits include base salaries, performance contract payments, vehicle allowances and contributions to employee benefit plans. Post-employment benefits include contributions to the Province's Public Service Pension Plan.

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2015</b>	2014
Salaries and employee benefits	<b>239</b>	178
Post-employment benefits	<b>14</b>	7
	<b>253</b>	185

**22. COMMITMENTS AND CONTINGENCIES**

- (a) Outstanding commitments for capital projects total approximately \$18.2 million as at December 31, 2015 (2014 - \$7.9 million).
- (b) Churchill Falls is subject to various legal proceedings and claims in the normal course of business. Although the outcome of such actions cannot be predicted with certainty, Management currently believes Churchill Falls' exposure to such claims and litigation, to the extent not covered by insurance policies or otherwise provided for, will not materially affect its financial position.
- (c) The arrangements under which Churchill Falls supplies the 225 MW Twinco Block to Twin Falls expired on December 31, 2014. As a result, a new power purchase agreement (PPA) between Churchill Falls and Hydro for the sale of up to 225 MW of power produced by the Churchill Falls Generating Station was signed by Churchill Falls and Hydro and was effective January 1, 2015 and is in effect to August 31, 2041.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

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The Sub-lease between Twinco and Churchill Falls dated November 15, 1961 giving Twinco the right to develop hydroelectric power on the Unknown River (the Sub-lease) expired on December 31, 2014. A sub-lease was signed between Hydro, Churchill Falls and Twin Falls naming Hydro as the sub-lessee of the transmission lines and related assets from Churchill Falls to Labrador West, covering the period of January 1 to June 30, 2015. The term of this Sub-lease has been extended to June 30, 2016.

Discussions continue between Churchill Falls, Twin Falls and Hydro regarding the commercial matters arising from the expiration of the Sub-lease, including the ownership of assets and the assumption of liabilities related thereto (including any environmental liabilities). The financial statements of Twin Falls for the year ended December 31, 2015 do not include adjustments to the carrying values and classification of assets and liabilities as they are undeterminable at this time. These adjustments could be material.

**23. CAPITAL MANAGEMENT**

Churchill Falls' objective when managing capital is to maintain its ability to continue as a going concern. Churchill Falls' requirements for capital in the future are expected to increase, coincident with the aging of the plant and related infrastructure and the execution of the long-term asset management plan. The focus of the capital management policy is to provide flexibility to ensure cash continues to be available to satisfy capital requirements. Managing the level of dividend payments is a key aspect of ensuring the availability of funding to maintain the plant and infrastructure.

At present, the capital position of Churchill Falls is comprised entirely of equity capital (issued capital, shareholder contributions, reserves and retained earnings). The capital structure is adjusted through the amount of dividends paid to shareholders.

Churchill Falls maintains a \$10.0 million Canadian or US equivalent unsecured operating credit facility with its banker. Advances may take the form of a Prime Rate advance or the issuance of a Bankers' Acceptance (BA) with interest calculated at the Prime Rate or prevailing Government BA Fee. The facility provides coverage for overdrafts on Churchill Falls' bank accounts, with interest calculated at the Prime Rate.

Churchill Falls has issued three irrevocable letters of credit totalling \$2.0 million to ensure satisfactory management of its waste management system and compliance with a certificate of approval for the transportation of special and hazardous wastes, granted by the Provincial Department of Environment and Conservation.

**24. SUPPLEMENTARY CASH FLOW INFORMATION**

<i>(thousands of Canadian dollars)</i>	<b>2015</b>	2014
Trade and other receivables	<b>(2,475)</b>	(1,763)
Inventories	<b>(1,067)</b>	(631)
Prepayments	<b>(49)</b>	(127)
Trade and other payables	<b>2,629</b>	829
Rental and royalty payable	<b>3,028</b>	(870)
<b>Change in non-cash working capital balances</b>	<b>2,066</b>	(2,562)
Interest received	<b>2,179</b>	4,494
Interest paid	<b>181</b>	287

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

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**25. COMPARATIVE FIGURES**

Certain of the comparative figures have been reclassified to conform to the basis of presentation adopted during the current reporting period. The changes have been summarized as follows:

<i>(thousands of Canadian dollars)</i>	Previously reported	Intangible asset	<b>Reclassified balance at December 31, 2014</b>
Property, plant and equipment	583,540	(570)	<b>582,970</b>
Intangible assets	-	570	<b>570</b>

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**FINANCIAL STATEMENTS**  
**December 31, 2016**

## Independent Auditor's Report

To the Shareholders of Churchill Falls (Labrador) Corporation Limited

We have audited the accompanying financial statements of Churchill Falls (Labrador) Corporation Limited, which comprise the statement of financial position as at December 31, 2016 and the statements of profit and comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Churchill Falls (Labrador) Corporation Limited as at December 31, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Emphasis of Matter

Without modifying our opinion, we draw attention to Note 28 to the financial statements, which explains that certain comparative information for the year ended December 31, 2015 has been restated.

*Deloitte LLP*

Chartered Professional Accountants  
March 1, 2017

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

<i>As at December 31 (thousands of Canadian dollars)</i>	Notes	2016	2015 (Note 27) (Restated - Note 28)
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	5	35,662	54,924
Trade and other receivables	6	20,393	23,789
Inventories	7	19,232	18,753
Current portion of reserve fund	12	7,466	16,437
Prepayments		2,063	1,932
<b>Total current assets</b>		<b>84,816</b>	<b>115,835</b>
Non-current assets			
Property, plant and equipment	8	654,198	615,457
Intangible assets	9	681	668
Investment in joint venture	10	1,868	1,853
Long-term investments	11	51,600	-
Reserve fund	12	15,132	30,578
<b>Total assets</b>		<b>808,295</b>	<b>764,391</b>
<b>LIABILITIES AND EQUITY</b>			
Current liabilities			
Trade and other payables	13	26,069	27,841
Rental and royalty payable	28	7,540	7,921
Current portion of deferred contributions	14	748	783
<b>Total current liabilities</b>		<b>34,357</b>	<b>36,545</b>
Non-current liabilities			
Deferred contributions	14	11,496	12,351
Decommissioning liabilities	15	1,970	1,296
Employee future benefits	16,28	27,548	26,964
<b>Total liabilities</b>		<b>75,371</b>	<b>77,156</b>
Shareholders' equity			
Share capital	18	82,900	82,900
Contributed capital	18	5,550	4,966
Reserves	28	(4,274)	(4,934)
Retained earnings	28	648,748	604,303
<b>Total equity</b>		<b>732,924</b>	<b>687,235</b>
<b>Total liabilities and equity</b>		<b>808,295</b>	<b>764,391</b>

Commitments and contingencies (Note 24)

See accompanying notes

On behalf of the Board:

DIRECTOR



DIRECTOR



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

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	Notes	2016	2015
			(Restated - Note 28)
Power sales		<b>110,087</b>	116,525
Guaranteed winter availability		<b>36,447</b>	36,637
Other revenue	14	<b>777</b>	783
Revenue		<b>147,311</b>	153,945
Operating costs	19,28	<b>67,547</b>	68,685
Depreciation and amortization	8,9	<b>23,581</b>	21,239
Net finance (income) expense	20	<b>(1,455)</b>	(1,640)
Other (income) expense	21	<b>550</b>	2,871
Share of (income) loss of joint venture	10	<b>(16)</b>	389
Profit for the year		<b>57,104</b>	62,401
Other comprehensive loss for the year			
Net fair value loss on available-for-sale financial instruments	17	<b>(409)</b>	(10)
Amounts reclassified to profit or loss	17	<b>(216)</b>	(92)
Amounts not reclassified to profit or loss			
Actuarial gain on employee benefits liability	16,17,28	<b>1,285</b>	831
Other comprehensive income for the year		<b>660</b>	729
Total comprehensive income for the year		<b>57,764</b>	63,130

*See accompanying notes*

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

<i>(thousands of Canadian dollars)</i>	Notes	Share Capital	Contributed Capital	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
<b>Balance at January 1, 2016</b>		<b>82,900</b>	<b>4,966</b>	<b>851</b>	<b>(5,785)</b>	<b>604,303</b>	<b>687,235</b>
<b>Profit for the year</b>		-	-	-	-	<b>57,104</b>	<b>57,104</b>
<b>Other comprehensive income</b>							
Net fair value loss on available-for-sale financial instruments	17	-	-	(409)	-	-	(409)
Amounts reclassified to profit or loss	17	-	-	(216)	-	-	(216)
Actuarial gain on employee benefits liability	16,17	-	-	-	1,285	-	1,285
<b>Total comprehensive (loss) income for the year</b>		-	-	<b>(625)</b>	<b>1,285</b>	<b>57,104</b>	<b>57,764</b>
<b>Contributed capital</b>	<b>18</b>	-	<b>584</b>	-	-	-	<b>584</b>
<b>Preferred dividends</b>	<b>18</b>	-	-	-	-	<b>(12,659)</b>	<b>(12,659)</b>
<b>Balance at December 31, 2016</b>		<b>82,900</b>	<b>5,550</b>	<b>226</b>	<b>(4,500)</b>	<b>648,748</b>	<b>732,924</b>
Balance at January 1, 2015 (Restated – Note 28)		82,900	4,844	953	(6,616)	555,619	637,700
Profit for the year		-	-	-	-	62,401	62,401
Other comprehensive income							
Net fair value loss on available-for-sale financial instruments	17	-	-	(10)	-	-	(10)
Amounts reclassified to profit or loss	17	-	-	(92)	-	-	(92)
Actuarial gain on employee benefits liability	16,17	-	-	-	831	-	831
<b>Total comprehensive (loss) income for the year</b>		-	-	<b>(102)</b>	<b>831</b>	<b>62,401</b>	<b>63,130</b>
<b>Contributed capital</b>	<b>18</b>	-	<b>122</b>	-	-	-	<b>122</b>
<b>Preferred dividends</b>	<b>18</b>	-	-	-	-	<b>(13,717)</b>	<b>(13,717)</b>
<b>Balance at December 31, 2015</b>		<b>82,900</b>	<b>4,966</b>	<b>851</b>	<b>(5,785)</b>	<b>604,303</b>	<b>687,235</b>

See accompanying notes

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

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	Notes	<b>2016</b>	2015
Cash provided from (used in)			(Restated - Note 28)
Operating activities			
Profit for the year	28	<b>57,104</b>	62,401
Adjusted for items not involving a cash flow:			
Depreciation and amortization	8,9	<b>23,581</b>	21,239
Amortization of deferred contributions	14	<b>(777)</b>	(783)
Employee benefits	16,28	<b>1,869</b>	1,509
Loss on disposal of property, plant and equipment	21	<b>683</b>	1,064
Accretion of decommissioning liability	15	<b>45</b>	48
Net discount on reserve fund	12	<b>(216)</b>	(91)
Share of (profit) loss of joint venture	10	<b>(16)</b>	389
Decommissioning liabilities settled	15	<b>(467)</b>	-
		<b>81,806</b>	85,776
Changes in non-cash working capital balances	26,28	<b>633</b>	2,109
Net cash provided from operating activities		<b>82,439</b>	87,885
Investing activities			
Additions to property, plant and equipment	8	<b>(62,125)</b>	(54,738)
Additions to intangible assets	9	<b>(161)</b>	(217)
Decrease in short-term investments		-	5,007
Increase in long-term investments	11	<b>(51,600)</b>	-
Withdrawal from reserve fund	12	<b>24,008</b>	4,973
Proceeds on disposal of property, plant and equipment		<b>252</b>	118
Net cash used in investing activities		<b>(89,626)</b>	(44,857)
Financing activities			
Decrease in long-term related party payable		-	(1,120)
Increase in contributed capital	18	<b>584</b>	122
Preferred dividends	18	<b>(12,659)</b>	(13,717)
Net cash used in financing activities		<b>(12,075)</b>	(14,715)
Net (decrease) increase in cash and cash equivalents		<b>(19,262)</b>	28,313
Cash and cash equivalents, beginning of year		<b>54,924</b>	26,611
Cash and cash equivalents, end of year		<b>35,662</b>	54,924
Interest received		<b>2,744</b>	2,179
Interest paid		<b>69</b>	181

See accompanying notes

# CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

## NOTES TO FINANCIAL STATEMENTS

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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 (MW). 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 (the Lease) 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 annual audited financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Churchill Falls has adopted accounting policies which are based on the IFRS applicable as at December 31, 2016, and include individual IFRS, International Accounting Standards (IAS), and interpretations made by the IFRS Interpretations Committee and the Standing Interpretations Committee.

These annual audited financial statements have been prepared on a historical cost basis, except for financial assets and financial liabilities which have been measured at fair value. The annual audited financial statements are presented in Canadian Dollars and all values rounded to the nearest thousand, except when otherwise noted. The annual audited financial statements were approved by Churchill Falls' Board of Directors on February 27, 2017.

#### 2.2 Cash and Cash Equivalents and Short-term Investments

Cash and cash equivalents consist of amounts on deposit with a Schedule 1 Canadian Chartered bank, as well as highly liquid investments with maturities of three months or less. Investments with maturities greater than three months and less than twelve months are classified as short-term investments. Cash and cash equivalents are measured at cost, which approximates fair value, while short-term investments are measured at fair value.

#### 2.3 Trade and Other Receivables

Trade and other receivables are classified as loans and receivables and are measured at amortized cost using the effective interest method.

#### 2.4 Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes expenditures incurred in acquiring the inventories and bringing them to their existing condition and location. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

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**2.5 Property, Plant and Equipment**

Items of property, plant and equipment are recognized using the cost model and thus are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes materials, labour, contracted services, professional fees and, for qualifying assets, borrowing costs capitalized in accordance with Churchill Falls' accounting policy outlined in Note 2.7. Costs capitalized with the related asset include all those costs directly attributable to bringing the asset into operation. When significant parts of property, plant and equipment are required to be replaced at intervals, Churchill Falls recognizes such parts as individual assets with specific useful lives and depreciation rates, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repairs and maintenance costs are recognized in the Statement of Profit and Comprehensive Income as incurred. Property, plant and equipment are not revalued for financial reporting purposes. Depreciation of these assets commences when the assets are ready for their intended use.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Hydroelectric generation plant	40 to 100 years
Transmission and terminals	30 to 65 years
Service facilities and other	5 to 45 years

The assets' residual values, useful lives and method of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate. The carrying value of property, plant and equipment is reviewed for impairment whenever events indicate that the carrying amounts of those assets may not be recoverable.

**2.6 Intangible Assets**

Intangible assets that are expected to generate future economic benefit and are measurable, including computer software costs, costs of technical services, and studies are capitalized as intangible assets in accordance with IAS 38.

Intangible assets with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. The estimated useful life and amortization method are reviewed at the end of each year, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

Amortization is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Computer software	7 to 10 years
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**2.7 Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in the Statement of Profit and Comprehensive Income in the period in which they are incurred.

**2.8 Impairment of Non-Financial Assets**

At the end of each reporting period, Churchill Falls reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

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Where it is not possible to estimate the recoverable amount of an individual asset, Churchill Falls estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified. The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from non-financial assets.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the Statement of Profit and Comprehensive Income.

**2.9 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 33.33% 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.

**2.10 Employee Benefits Liability**

(i) Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. Contributions by Churchill Falls to this Plan are recognized as an expense when employees have rendered service entitling them to the contributions. Liabilities associated with this Plan are held with the Province.

(ii) Other Benefits

Churchill Falls provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a severance payment upon retirement.

The cost of providing these benefits is determined using the projected unit credit method, with actuarial valuations completed on an annual basis, based on service and Management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

Actuarial gains and losses on Churchill Falls' defined benefit obligation are recognized in reserves in the period in which they occur. Past service costs are recognized in operating costs as incurred.

The retirement benefit obligation recognized in the Statement of Financial Position represents the present value of the defined benefit obligation.

**2.11 Provisions**

A provision is a liability of uncertain timing or amount. A provision is recognized if Churchill Falls has a present legal obligation or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. The provision is measured at the present value of the best estimate of the expenditures expected to be required to settle the obligation using a discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. Provisions are re-measured at each Statement of Financial Position date using the current discount rate.

**2.12 Decommissioning, Restoration and Environmental Liabilities**

Legal and constructive obligations associated with the retirement of property, plant and equipment are recorded as liabilities when those obligations are incurred and are measured as the present value of the expected costs to settle the liability, discounted at a rate specific to the liability. The liability is accreted up to the date the liability will be incurred with a corresponding charge to net finance (income) expense. The carrying amount of decommissioning, restoration and environmental liabilities is reviewed annually with changes in the estimates of timing or amount of cash flows added to or deducted from the cost of the related asset or expensed in the Statement of Profit and Comprehensive Income if the liability is short-term in nature.

**2.13 Revenue Recognition**

Revenue from the sale of energy is recognized when Churchill Falls has transferred the significant risks and rewards of ownership to the buyer, recovery of the consideration is probable, and the amount of revenue can be reliably measured. Sales within the Province are primarily at rates approved by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB), whereas export sales and sales to certain major industrial customers are either at rates under the terms of the applicable contracts, or at market rates.

Churchill Falls provides energy to two primary customers: Hydro-Québec and Hydro.

A power contract with Hydro-Québec dated May 12, 1969 (the Power Contract) provides for the sale of a significant amount of the energy from Churchill Falls. The Power Contract had a 40-year term that expired August 31, 2016, and was followed by a Renewed Power Contract with Hydro-Québec for an additional 25 years beginning September 1, 2016. The rate was predetermined in the Power Contract and was 2.5426 mills per kWh. The rate during the term of the Renewed Power Contract is 2.0 mills per kWh.

Churchill Falls also recognizes revenue from Hydro-Québec under a Guaranteed Winter Availability Contract (GWAC) through 2041. The GWAC was signed with Hydro-Québec in 1998 and provides for the sale of 682 MW of guaranteed seasonal availability to Hydro-Québec during the months of November through March in each of the remaining years until 2041.

The value of differences between energy delivered and the Annual Energy Base (AEB), as defined in the Power Contract, was tracked over a four-year period and then either recovered from or refunded to Hydro-Québec over the subsequent four-year period, unless the balance is less than \$1.0 million in which case it is recovered or refunded immediately or expiration of the Power Contract in which case it is recovered or refunded within 3 months. These receivables or payables are subject to interest at 7% per annum (2015 - 7%).

Under the Power Contract and Renewed Power Contract, Churchill Falls has the right to recall 300 MW (Recall Power). All of the Recall Power is sold by Churchill Falls to Hydro. Churchill Falls also provides 225 MW to Hydro.

**2.14 Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Lessors accounting

Amounts due from lessees under finance leases are recognized as receivables at the amount of Churchill Falls' net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on Churchill Falls' net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

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Lessee accounting

Assets held under finance leases are initially recognized as assets of Churchill Falls' at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with Churchill Falls' general policy on borrowing costs (Note 2.7). Contingent rental costs are recognized as operating costs in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**2.15 Net Finance (Income) Expense**

For all financial instruments measured at amortized cost and interest bearing financial assets classified as AFS, interest income or expense is recorded using the effective interest rate method.

**2.16 Foreign Currencies**

Transactions in currencies other than Churchill Falls' functional currency (foreign currencies) are recognized using the exchange rate in effect at the date of the transaction, approximated by the prior month end close rate. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates of exchange in effect at the period end date. Foreign exchange gains and losses are included in the Statement of Profit and Comprehensive Income as other income (expense).

**2.17 Income Taxes**

Churchill Falls is exempt from paying income taxes under Section 149(1) (d.2) of the Income Tax Act.

**2.18 Financial Instruments**

Financial assets and financial liabilities are recognized in the Statement of Financial Position when Churchill Falls becomes a party to the contractual provisions of the instrument and are initially measured at fair value. Subsequent measurement is based on classification. Financial instruments are classified into the following specified categories: financial assets at fair value through profit or loss (FVTPL), AFS financial assets, loans and receivables, held-to-maturity investments, financial liabilities at FVTPL, financial instruments used for hedging and other financial liabilities. The classification depends on the nature and purpose of the financial instruments and is determined at the time of initial recognition.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

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Classification of Financial Instruments

Churchill Falls has classified each of its financial instruments into the following categories: loans and receivables, AFS financial assets, and other financial liabilities.

<u>Financial Instrument</u>	<u>Category</u>
Cash and cash equivalents	Loans and receivables
Trade and other receivables	Loans and receivables
Long-term investments	AFS financial assets
Reserve fund (current and long-term)	AFS financial assets
Trade and other payables	Other financial liabilities
Rental and royalty payable	Other financial liabilities

(i) Effective Interest Method

The effective interest method is a method of calculating the amortized cost of a financial instrument and allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income or expense is recognized on an effective interest basis for financial instruments other than those financial assets or liabilities classified as at FVTPL.

Financial Assets

(ii) AFS Financial Assets

AFS financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the previous categories. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the fair value reserve with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified to profit or loss.

(iii) Loans and Receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Financial Liabilities and Equity Instruments

(iv) Other Financial Liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

**2.19 Derecognition of Financial Instruments**

Churchill Falls derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If Churchill Falls neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, its retained interest in the asset and an associated liability for amounts it may have to pay is recognized. If Churchill Falls retains substantially all the risks and rewards of ownership of a transferred financial asset, it continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received. Churchill Falls derecognizes financial liabilities when, and only when, its obligations are discharged, cancelled or they expire.

**2.20 Impairment of Financial Assets**

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- the borrower, more probable than not, entering into bankruptcy or financial re-organization

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include Churchill Falls' past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income (loss) are reclassified to profit or loss in the period.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

**2.21 Government Grants**

Government grants are recognized when there is reasonable assurance that Churchill Falls will comply with the associated conditions and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which Churchill Falls recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that Churchill Falls should purchase, construct or otherwise acquire non-current assets are recognized as deferred contributions in the Statements of Financial Position and transferred to the Statement of Profit and Comprehensive Income on a systematic and rational basis over the useful lives of the related assets.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

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Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to Churchill Falls with no future related costs are recognized in the Statement of Profit and Comprehensive Income in the period in which they become receivable.

**3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the annual audited financial statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ materially from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is reviewed if the revision affects only that period or in future periods.

**3.1 Use of Estimates**

(i) Property, Plant and Equipment

Amounts recorded for depreciation are based on the useful lives of Churchill Falls' assets. The useful lives of property, plant and equipment are determined by independent specialists and reviewed annually by Churchill Falls. These useful lives are Management's best estimate of the service lives of these assets. Changes to these lives could materially affect the amount of depreciation recorded.

(ii) Intangible Assets

Amounts recorded for amortization are based on the useful lives of Churchill Falls' assets. These useful lives are Management's best estimate of the service lives of these assets. Changes to these lives could materially affect the amount of amortization recorded.

(iii) Decommissioning Liabilities

Churchill Falls recognizes a liability for the fair value of the future expenditures required to settle obligations associated with the retirement of property, plant and equipment. Decommissioning liabilities are recorded as a liability at fair value, with a corresponding increase to property, plant and equipment. Accretion of decommissioning liabilities is included in the Statement of Profit and Comprehensive Income through net finance (income) expense. Differences between the recorded decommissioning liabilities and the actual decommissioning costs incurred are recorded as a gain or loss in the settlement period.

(iv) Employee Benefits

Churchill Falls provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a severance payment upon retirement. The expected cost of providing these other employee benefits is accounted for on an accrual basis, and has been actuarially determined using the projected unit credit method prorated on service, and Management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

(v) Revenue

In the absence of a signed agreement with Hydro-Québec relating to the Annual Energy Base (AEB), Churchill Falls continues to apply the terms of the previous agreement which expired August 31, 2012 in relation to the Renewed Power Contract. Management continues to work to negotiate terms of a new agreement.

### **3.2 Use of Judgment**

(i) Asset Impairment and Reversals

Churchill Falls applies judgment in evaluating impairment and impairment reversal indicators based on various internal and external factors.

The recoverable amount of a CGU or asset is determined based on the higher of fair value less costs of disposal and its value in use. Management uses judgment in selecting discount rates and considering the occurrence of future events when determining the recoverable amount. Changes in these factors will affect the recoverable amount of CGUs and assets, which may result in a material adjustment to their carrying value.

(ii) Property, Plant and Equipment

Churchill Falls' accounting policy relating to property, plant and equipment is described in Note 2.5. In applying this policy, judgment is used in determining whether certain costs are additions to the carrying amount of the property, plant and equipment as opposed to repairs and maintenance. If an asset has been developed, judgment is required to identify the point at which the asset is capable of being used as intended and to identify the directly attributable borrowing costs to be included in the carrying value of the development asset. Judgment is also used in determining the appropriate componentization structure for Churchill Falls' property, plant and equipment.

(iii) Determination of CGUs

Churchill Falls' accounting policy relating to impairment of non-financial assets is described in Note 2.8. In applying this policy, Churchill Falls groups assets into the smallest identifiable groups for which cash flows are largely independent of the cash flows from other assets or groups of assets. Judgment is used in determining the level at which cash flows are largely independent of other assets or groups of assets.

(iv) Discount Rates

Certain of Churchill Falls' financial liabilities are discounted using discount rates that are subject to Management's judgment.

(v) Consolidation of Joint Arrangements

Management exercises judgment when applying the criteria outlined in IFRS 11 to determine whether joint arrangements constitute joint ventures or joint operations. Management has determined that its interest in Twin Falls is considered a joint venture.

#### **4. FUTURE CHANGES IN ACCOUNTING POLICIES**

Amendments to IFRS 11 – Accounting for Acquisition of Interests in Joint Operations, IAS 1 – Disclosure Initiatives and IAS 16 and 38 – Clarification of Acceptable Methods of Depreciation and Amortization that became effective for annual periods beginning on or after January 1, 2016 did not have a material impact on Churchill Falls’ annual audited financial statements.

Churchill Falls has not applied the following new and revised IFRS that have been issued but are not yet effective:

Amendments to IAS 7 - Disclosure Initiative<sup>1</sup>

IFRS 9 - Financial Instruments<sup>2</sup>

IFRS 15 - Revenue from Contracts with Customers<sup>2</sup>

IFRS 16 - Leases<sup>3</sup>

Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures<sup>4</sup>

<sup>1</sup>Effective for annual periods beginning on or after January 1, 2017, with earlier application permitted.

<sup>2</sup>Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

<sup>3</sup>Effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

<sup>4</sup>Effective for annual periods beginning on or after a date yet to be determined.

##### **4.1 Amendments to IAS 7 Disclosure Initiative**

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific format to disclose financing activities; however, an entity may fulfil the disclosure objective by providing a reconciliation between the opening and closing balances in the Statement of Financial Position for liabilities arising from financing activities.

The amendments apply prospectively. Entities are not required to present comparative information for earlier periods.

Management does not anticipate that the application of these amendments to IAS 7 will have a material impact on Churchill Falls’ annual audited financial statement disclosures.

##### **4.2 IFRS 9 Financial Instruments**

In July 2014, the IASB finalized the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which contains the requirements for a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting. IFRS 9 (as revised in 2014) will supersede IAS 39 Financial Instruments: Recognition and Measurement upon its effective date.

###### ***Phase 1: Classification and measurement of financial assets and financial liabilities***

With respect to the classification and measurement, the number of categories of financial assets under IFRS 9 has been reduced; all recognized financial assets that are currently within the scope of IAS 39 will be subsequently measured at either amortized cost or fair value under IFRS 9.

IFRS 9 also contains requirements for the classification and measurement of financial liabilities and derecognition requirements. One major change from IAS 39 relates to the presentation of changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of that liability. Under IFRS 9, such changes are presented in other comprehensive income, unless the presentation of the effect of the change in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

***Phase 2: Impairment of financial assets***

The impairment model under IFRS 9 reflects expected credit losses, as opposed to incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

***Phase 3: Hedge accounting***

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required. Far more disclosure requirements about an entity's risk management activities have been introduced.

***Transitional provisions***

IFRS 9 (as revised in 2014) is effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. Management has elected to adopt the standard as of the effective date, and although the classifications of existing financial instruments and related disclosures will change, Management does not anticipate material adjustments to Churchill Falls' annual audited financial statements upon transition.

**4.3 IFRS 15 Revenue from Contracts with Customers**

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It will supersede the following revenue standards and interpretations upon its effective date:

- IAS 18 Revenue;
- IAS 11 Construction Contracts;
- IFRIC 13 Customer Loyalty Programs;
- IFRIC 15 Agreements for the Construction of Real Estate;
- IFRIC 18 Transfers of Assets from Customers; and
- SIC 31 Revenue-Barter Transactions Involving Advertising Services.

As suggested by the title of the new revenue standard, IFRS 15 will only cover revenue arising from contracts with customers. Under IFRS 15, a customer of an entity is a party that has contracted with the entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. Unlike the scope of IAS 18, the recognition and measurement of interest income and dividend income from debt and equity investments are no longer within the scope of IFRS 15. Instead, they are within the scope of IAS 39 (or IFRS 9 if it is early adopted).

As mentioned above, the new standard has a single model to deal with revenue from contracts with customers. Its core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Specifically, the Standard introduces a five-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Extensive disclosures are also required by the new standard.

Management does not anticipate that the application of IFRS 15 in the future will have a material impact on the amounts reported and disclosures made in Churchill Falls' annual audited financial statements.

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**4.4 IFRS 16 Leases**

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It will supersede the following lease standard and interpretations upon its effective date:

- IAS 17 Leases;
- IFRIC 4 Determining Whether an Arrangement contains a Lease;
- SIC-15 Operating Leases – Incentives; and
- SIC-27 Evaluation the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer.

The standard introduces significant changes to lessee accounting: it removes the distinction between operating and finance leases under IAS 17 and requires a lessee to recognize a right-of-use asset and a lease liability at lease commencement for all leases, except for short-term leases and leases of low value assets.

In contrast to lessee accounting, the IFRS 16 lessor accounting requirements remain largely unchanged from IAS 17, which continue to require a lessor to classify a lease as either an operating lease or a finance lease.

A lessee can apply IFRS 16 either by a full retrospective approach or a modified retrospective approach. If the latter approach is selected, an entity is not required to restate the comparative information and the cumulative effect of initially applying IFRS 16 must be presented as an adjustment to opening retained earnings. Management anticipates that the application of IFRS 16 in the future may have a material impact on the amounts reported and disclosures made in Churchill Falls' annual audited financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until Management performs a detailed review.

**4.5 Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture.

In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Earlier application of these amendments is still permitted.

**5. CASH AND CASH EQUIVALENTS**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2016</b>	<b>2015</b>
Cash	<b>15,552</b>	54,924
Cash equivalents	<b>20,110</b>	-
	<b>35,662</b>	54,924

The effective interest rate on cash equivalents at December 31, 2016 was 0.97% per annum.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

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**6. TRADE AND OTHER RECEIVABLES**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2016</b>	2015
Due from related parties	<b>18,395</b>	21,200
Other receivables	<b>1,998</b>	2,589
	<b>20,393</b>	23,789

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2016</b>	2015
0-60 days	<b>20,288</b>	22,801
60+ days	<b>105</b>	988
	<b>20,393</b>	23,789

**7. INVENTORIES**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2016</b>	2015
Materials and other	<b>16,427</b>	15,938
Construction aggregates	<b>2,701</b>	2,701
Fuel	<b>104</b>	114
	<b>19,232</b>	18,753

The cost of inventories recognized as an expense during the year is \$3.0 million (2015 - \$2.8 million) and is included in operating costs in the Statement of Profit and Comprehensive Income.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
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**8. PROPERTY, PLANT AND EQUIPMENT**

<i>(thousands of Canadian dollars)</i>	Hydroelectric Generation Plant	Transmission and Terminals	Service Facilities and Other	Construction in Progress	Total
<b>Cost</b>					
Balance at January 1, 2015	760,280	235,093	177,457	18,449	1,191,279
Additions	(34)	-	-	54,772	54,738
Decommissioning liabilities and revisions	-	51	-	-	51
Disposals	(2,762)	(1,167)	(2,738)	-	(6,667)
Transfers	19,255	15,830	15,318	(50,403)	-
<b>Balance at December 31, 2015</b>	<b>776,739</b>	<b>249,807</b>	<b>190,037</b>	<b>22,818</b>	<b>1,239,401</b>
<b>Additions</b>	<b>(78)</b>	<b>-</b>	<b>33</b>	<b>62,170</b>	<b>62,125</b>
<b>Decommissioning liabilities and revisions</b>	<b>-</b>	<b>1,096</b>	<b>-</b>	<b>-</b>	<b>1,096</b>
<b>Disposals</b>	<b>(2,239)</b>	<b>(1,044)</b>	<b>(2,582)</b>	<b>-</b>	<b>(5,865)</b>
<b>Transfers</b>	<b>26,383</b>	<b>22,028</b>	<b>20,068</b>	<b>(68,479)</b>	<b>-</b>
<b>Balance at December 31, 2016</b>	<b>800,805</b>	<b>271,887</b>	<b>207,556</b>	<b>16,509</b>	<b>1,296,757</b>
<b>Depreciation</b>					
Balance at January 1, 2015	404,666	127,629	76,014	-	608,309
Depreciation	9,876	3,635	7,609	-	21,120
Disposals	(2,124)	(920)	(2,441)	-	(5,485)
<b>Balance at December 31, 2015</b>	<b>412,418</b>	<b>130,344</b>	<b>81,182</b>	<b>-</b>	<b>623,944</b>
<b>Depreciation</b>	<b>10,745</b>	<b>4,271</b>	<b>8,417</b>	<b>-</b>	<b>23,433</b>
<b>Disposals</b>	<b>(1,652)</b>	<b>(850)</b>	<b>(2,316)</b>	<b>-</b>	<b>(4,818)</b>
<b>Balance at December 31, 2016</b>	<b>421,511</b>	<b>133,765</b>	<b>87,283</b>	<b>-</b>	<b>642,559</b>
<b>Carrying value</b>					
Balance at January 1, 2015	355,614	107,464	101,443	18,449	582,970
Balance at December 31, 2015	364,321	119,463	108,855	22,818	615,457
<b>Balance at December 31, 2016</b>	<b>379,294</b>	<b>138,122</b>	<b>120,273</b>	<b>16,509</b>	<b>654,198</b>

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

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**9. INTANGIBLE ASSETS**

*(thousands of Canadian dollars)*

Software

Cost

Balance at January 1, 2015	1,021
Additions	217
Disposals	-
Balance at December 31, 2015	1,238
<b>Additions</b>	<b>161</b>
<b>Disposals</b>	<b>-</b>
<b>Balance at December 31, 2016</b>	<b>1,399</b>

Amortization

Balance at January 1, 2015	451
Amortization	119
Disposals	-
Balance at December 31, 2015	570
<b>Amortization</b>	<b>148</b>
<b>Disposals</b>	<b>-</b>
<b>Balance at December 31, 2016</b>	<b>718</b>

Carrying value

Balance at January 1, 2015	570
Balance at December 31, 2015	668
<b>Balance at December 31, 2016</b>	<b>681</b>

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
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**10. INVESTMENT IN JOINT VENTURE**

Churchill Falls holds a 33.33% equity shareholding and majority voting power in Twin Falls, subject to the provisions of the Participation Agreement. Twin Falls is incorporated under the laws of Canada and developed a 225 MW hydroelectric generating plant on the Unknown River in Labrador. The plant has been inoperative since 1974. There has been no change in Churchill Falls' ownership or voting interest during the year.

The following is summarized financial information with respect to Twin Falls:

<i>(thousands of Canadian dollars)</i>	<b>2016</b>	2015
Current assets	<b>5,624</b>	5,898
Non-current assets	<b>58</b>	346
Current liabilities	<b>62</b>	630
Non-current liabilities	<b>12</b>	53
Net assets	<b>5,608</b>	5,561
Churchill Falls' share of net assets	<b>1,868</b>	1,853
Total profit (loss)	<b>47</b>	(1,167)
Churchill Falls' share of profit (loss)	<b>16</b>	(389)

The above amounts of assets and liabilities include the following:

Cash and cash equivalents	<b>5,572</b>	5,558
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**11. LONG-TERM INVESTMENTS**

<i>As at December 31 (thousands of Canadian dollars)</i>	Year of Maturity	<b>2016</b>	2015
\$28.0 million Redeemable GIC, interest at 1.40%	2019	<b>28,000</b>	-
\$23.6 million Redeemable GIC, interest at 1.46%	2019	<b>23,600</b>	-
Long-term investments, end of year		<b>51,600</b>	-

**12. RESERVE FUND**

In 2007 Churchill Falls commenced the creation of a \$75.0 million segregated reserve fund pursuant to the terms of the Shareholders' Agreement to contribute towards the funding of capital expenditures related to Churchill Falls' existing facilities and their replacement. Churchill Falls invested \$17.0 million in each of 2007, 2008 and 2009 and \$8.0 million in each of 2010, 2011 and 2012. In December 2016, \$23.4 million (2015 - \$5.0 million) was withdrawn to fund a portion of capital expenditures. As per the terms of the Shareholders' Agreement, these funds will be replaced over a five year period when the reserve fund is fully depleted.

This fund must remain in place until the end of the Shareholders' Agreement in 2041. Any amounts removed to fund capital expenditures must be replaced. Reserve fund holdings consist of securities issued by the Government of Canada, various provinces of Canada and Schedule 1 and 2 Canadian Chartered Banks.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
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The reserve fund consists of the following:

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2016</b>	2015
		(Note 27)
Reserve fund, beginning of year	<b>47,015</b>	51,999
Principal withdrawals	<b>(23,370)</b>	(4,972)
Earnings withdrawn	<b>(638)</b>	(1)
Net discount	<b>216</b>	91
Mark-to-market adjustment	<b>(625)</b>	(102)
Reserve fund, end of year	<b>22,598</b>	47,015
Less: current portion	<b>(7,466)</b>	(16,437)
	<b>15,132</b>	30,578

**13. TRADE AND OTHER PAYABLES**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2016</b>	2015
Trade payables and accruals	<b>14,111</b>	12,729
Payables due to related parties	<b>3,089</b>	2,790
Other payables	<b>8,869</b>	12,322
	<b>26,069</b>	27,841

**14. DEFERRED CONTRIBUTIONS**

Churchill Falls has received contributions from Transport Canada related to the airport. These contributions are deferred and amortized to other revenue over the life of the related item of property, plant and equipment.

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2016</b>	2015
Deferred contributions, beginning of year	<b>13,134</b>	13,917
Disposals	<b>(113)</b>	-
Amortization	<b>(777)</b>	(783)
Deferred contributions, end of year	<b>12,244</b>	13,134
Less: current portion	<b>(748)</b>	(783)
	<b>11,496</b>	12,351

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
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**15. DECOMMISSIONING LIABILITIES**

Churchill Falls has recognized liabilities associated with the disposal of Polychlorinated Biphenyls (PCB).

The reconciliation of the beginning and ending carrying amounts of decommissioning liabilities as at December 31, 2016 and December 31, 2015 are as follows:

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2016</b>	<b>2015</b>
Decommissioning liabilities, beginning of year	<b>1,296</b>	1,197
Accretion	<b>45</b>	48
Liabilities settled	<b>(467)</b>	-
Revisions	<b>1,096</b>	51
Decommissioning liabilities, end of year	<b>1,970</b>	1,296

The total estimated undiscounted cash flows required to settle the PCB obligations at December 31, 2016 are \$2.3 million (2015 - \$1.3 million). The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at the Company's credit adjusted risk free rate of 3.7% (2015 - 3.8%).

**16. EMPLOYEE FUTURE BENEFITS**

**16.1 Pension Plan**

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions for the year ended December 31, 2016 of \$2,509,000 (2015 - \$2,400,000) are expensed as incurred.

**16.2 Other Benefits**

Churchill Falls provides group life insurance and healthcare benefits on a cost shared basis to retired employees, and in certain cases, their surviving spouses, in addition to a severance payment upon retirement. In 2016, cash payments to beneficiaries for its unfunded other employee future benefits were \$611,000 (2015 - \$831,000). An actuarial valuation was performed as at December 31, 2016.

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2016</b>	<b>2015</b>
Accrued benefit obligation		(Restated - Note 28)
Balance, beginning of year	<b>26,964</b>	26,286
Current service cost	<b>1,329</b>	1,203
Interest cost	<b>1,146</b>	1,137
Transfers	<b>5</b>	-
Benefits paid	<b>(611)</b>	(831)
Actuarial gain	<b>(1,285)</b>	(831)
Balance, end of year	<b>27,548</b>	26,964

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2016</b>	<b>2015</b>
Component of benefit cost		(Restated - Note 28)
Current service cost	<b>1,329</b>	1,203
Interest cost	<b>1,146</b>	1,137
Total benefit expense for the year	<b>2,475</b>	2,340

The significant actuarial assumptions used in measuring the accrued benefit obligations and benefit expenses are as follows:

	<b>2016</b>	<b>2015</b>
Discount rate - benefit cost	<b>4.10%</b>	4.20%
Discount rate - accrued benefit obligation	<b>4.10%</b>	4.20%
Rate of compensation increase	<b>3.50%</b>	3.50%

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
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Assumed healthcare trend rates:

	<b>2016</b>	2015
Initial healthcare expense trend rate	<b>5.85%</b>	6.00%
Cost trend decline to	<b>4.50%</b>	4.50%
Year that rate reaches the rate it is assumed to remain at	<b>2025</b>	2025

A 1% change in assumed healthcare trend rates would have had the following effects:

<i>Increase (thousands of Canadian dollars)</i>	<b>2016</b>	2015
Current service and interest cost	<b>477</b>	682
Accrued benefit obligation	<b>4,617</b>	6,165
<i>Decrease (thousands of Canadian dollars)</i>	<b>2016</b>	2015
Current service and interest cost	<b>(346)</b>	(484)
Accrued benefit obligation	<b>(3,510)</b>	(4,602)

**17. ACCUMULATED OTHER COMPREHENSIVE INCOME**

The components of, and changes in, accumulated other comprehensive income (loss) are as follows:

*Items that will not be reclassified to profit or loss:*

<i>(thousands of Canadian dollars)</i>	<b>2016</b>	2015
Employee benefits liability		(Restated - Note 28)
Balance at January 1	<b>(5,785)</b>	(6,616)
Net actuarial gain on defined benefit plan	<b>1,285</b>	831
Balance, end of year	<b>(4,500)</b>	(5,785)

*Items that may or have been reclassified to profit or loss:*

<i>(thousands of Canadian dollars)</i>	<b>2016</b>	2015
Available-for-sale financial instruments		
Balance at January 1	<b>851</b>	953
Net fair value loss on available-for-sale during the year	<b>(409)</b>	(10)
Amounts reclassified to profit or loss	<b>(216)</b>	(92)
Balance, end of year	<b>226</b>	851

**18. SHAREHOLDERS' EQUITY**

**18.1 Share Capital**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2016</b>	2015
Common shares without nominal or par value		
Authorized - unlimited		
Issued, fully paid and outstanding - 8,759,999	<b>82,900</b>	82,900
Preferred shares without nominal or par value		
Authorized - 3		
Issued, fully paid and outstanding - 3	-	-

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

Additional shares cannot be issued without the approval of a majority of the directors on the Board of Directors, including at least one director nominated by Hydro and one director nominated by Hydro-Québec.

The preferred shares are divided into three classes, one of each has been issued, and the dividends thereon, which rank ahead of dividends on common shares, are as follows:

The Class A Cumulative Preferred Shareholder is entitled to dividend payments calculated as the amount equal to the income taxes which would have been received by the Province had Churchill Falls continued to be a taxable corporation.

The Class B and Class C Redeemable Cumulative Preferred Shareholders are no longer entitled to receive dividends.

**18.2 Contributed Capital**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2016</b>	2015
Labrador Transmission Corporation (Labrador Transco)	<b>198</b>	-
Churchill Falls (Labrador) Corporation Trust (the Trust)	<b>5,352</b>	4,966
<b>Total contributed capital</b>	<b>5,550</b>	4,966

During 2016, Labrador Transco contributed \$198,000 (2015 - \$nil) related to property, plant and equipment and the Trust contributed \$386,000 (2015 - \$122,000).

**18.3 Dividends Paid and Proposed**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2016</b>	2015
Declared during the year		
Final preferred dividend for prior year	<b>1,243</b>	(26)
Interim preferred dividend for current year	<b>11,416</b>	13,743
	<b>12,659</b>	13,717
Proposed for approval, not recognized as payable (receivable) at December 31		
Final dividend underpayment for current year	<b>515</b>	1,243

During 2016, Churchill Falls did not pay any common dividends (2015 - \$nil).

**19. OPERATING COSTS**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2016</b>	2015
		(Restated - Note 28)
Salaries and benefits expense	<b>41,377</b>	38,578
Maintenance and materials	<b>10,126</b>	10,208
Rental and royalty expense	<b>7,374</b>	7,797
Professional services	<b>4,867</b>	6,350
Other operating costs	<b>3,803</b>	5,752
	<b>67,547</b>	68,685

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

**20. NET FINANCE (INCOME) EXPENSE**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2016</b>	<b>2015</b>
Finance income		
Interest on reserve fund	<b>1,123</b>	1,365
Interest on short-term investments	<b>137</b>	281
Other interest income	<b>514</b>	155
	<b>1,774</b>	1,801
Finance expense		
Related party payable / receivable	<b>231</b>	60
Accretion of decommissioning liability	<b>45</b>	48
Other interest expense	<b>43</b>	53
	<b>319</b>	161
Net finance (income) expense	<b>(1,455)</b>	(1,640)

**21. OTHER (INCOME) EXPENSE**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2016</b>	<b>2015</b>
Realized foreign exchange (gain) loss	<b>(209)</b>	227
Unrealized foreign exchange loss (gain)	<b>35</b>	(169)
Loss on disposal of property, plant and equipment	<b>683</b>	1,064
Other asset disposal costs	<b>41</b>	1,749
Other (income) expense	<b>550</b>	2,871

**22. FINANCIAL INSTRUMENTS**

**Fair Value**

The estimated fair values of financial instruments as at December 31, 2016 and December 31, 2015 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).

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

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 year. There were no transfers between Level 1, 2 and 3 fair value measurement during the years ended December 31, 2016 and December 31, 2015.

As at December 31, 2016 and December 31, 2015, Churchill Falls did not have any Level 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		December 31, 2016		December 31, 2015	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Reserve fund	2	22,598	22,598	47,015	47,015

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

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 and long-term debt are determined using observable inputs other than unadjusted quoted prices, such as interest rate yield curves and currency rates.

**22.2 Risk Management**

Churchill Falls is exposed to certain credit, liquidity and market price risks through its operating, financing and investing activities. Financial risk is managed in accordance with a Board approved policy, which outlines the objectives and strategies for the management of financial risk, including the use of derivative contracts. Permitted financial risk management strategies are aimed at minimizing the volatility of Churchill Falls' expected future cash flows.

Credit Risk

Expected future cash flows are exposed to credit risk through operating activities, primarily due to the potential for non-performance by customers, and through financing activities, based on the risk of non-performance by counterparties to financial instruments. The degree of exposure on cash and cash equivalents, accounts receivable, long-term investments, the reserve fund, long-term payables and receivables and energy sales depends on the financial capacity and stability of those customers and counterparties. The maximum exposure to credit risk on these financial instruments is represented by their carrying values on the Statement of Financial Position at the reporting date.

Credit exposure on energy sales is limited, as Churchill Falls' two main customers – Hydro and Hydro Québec – are investment grade utilities.

Credit risk on cash and cash equivalents is limited, as Churchill Falls' cash deposits are held by a Schedule 1 Canadian Chartered bank with a rating of A+ (Standard and Poor's).

Credit exposure on the reserve fund is mitigated by adhering to an investment policy which restricts the holdings to long-term debt instruments issued or guaranteed by the Government of Canada or any province of Canada. Investment in the long-term debt instruments of Canadian banks are also permitted, provided the bank is rated A or higher by Standard and Poor's. With the exception of Government of Canada, holdings of any one issuer are limited to 10% of the total principal amount of the portfolio. The following credit risk table provides information on credit exposures according to issuer type and credit rating for the reserve fund:

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

	Issuer Credit Rating	Fair Value of Portfolio (%)	Issuer Credit Rating	Fair Value of Portfolio (%)
	2016		2015	
Provincial governments	AA- to AAA	7.32%	AA- to AAA	3.48%
Provincial governments	A- to A+	30.63%	A- to A+	12.69%
Provincially owned utilities	A- to A+	0.00%	A- to A+	12.70%
Schedule 1 Canadian banks	AA- to AAA	9.07%	AA- to AAA	10.17%
Schedule 1 and 2 Canadian banks	A- to A+	52.98%	A- to A+	60.96%
		<b>100.00%</b>		<b>100.00%</b>

Liquidity Risk

Churchill Falls is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. Churchill Falls manages this risk by maintaining borrowing facilities, a minimum cash balance of \$22.0 million (2015 - \$20.0 million) and business interruption insurance. Short-term liquidity is provided through cash and cash equivalents on hand, funds from operations and a \$10.0 million (2015 - \$10.0 million) unsecured credit facility. Long-term liquidity risk is managed by maintenance of the reserve fund in accordance with the June 1999 shareholders' agreement and a dividend management policy that meets long-term liquidity requirements associated with Churchill Falls' capital expenditure program.

The following are the contractual maturities of Churchill Falls' financial liabilities, including principal and interest, as at December 31, 2016.

<i>(thousands of Canadian dollars)</i>	< 1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	26,069	-	-	-	26,069
Rental and royalty payable	7,540	-	-	-	7,540
	33,609	-	-	-	33,609

Market Risk

Churchill Falls is exposed to possible market price movements that could impact expected future cash flow and the carrying value of certain financial assets and liabilities.

*Interest Rates*

Changes in prevailing interest rates will impact the fair value of financial assets and liabilities classified as available for sale, which includes long-term investments and the reserve fund. Expected future cash flows from these assets and liabilities are also impacted in certain circumstances, such as when available for sale securities are sold prior to maturity. The following table illustrates Churchill Falls' exposure to a 50 basis point (bps) change in interest rates:

	Other Comprehensive Income	
	0.5% Decrease	0.5% Increase
<i>(thousands of Canadian dollars)</i>		
Interest on reserve fund	167	165

*Foreign Currency and Commodity Exposure*

Churchill Falls does not hold any financial instrument whose value would vary due to changes in a commodity price. Cash flow exposure to commodity price and foreign exchange risk arises primarily through investing activities, most notably US dollar denominated capital expenditures, and regular procurement activities. The exposure, however, is considered immaterial.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

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**23. 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
Nalcor	100% shareholder of Hydro
The Province	100% shareholder of Nalcor
Twin Falls	Jointly controlled by Churchill Falls
Labrador Transco	100% owned subsidiary of Nalcor
The Trust	Churchill Falls (Labrador) Corporation Trust was created by the Province with Churchill Falls as the beneficiary

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

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.

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

<i>As at December 31 (thousands of Canadian dollars)</i>	Related party	<b>2016</b>	2015
<b>Trade and other receivables:</b>		(Restated - Note 28)	
Power sales	Hydro-Québec	<b>13,267</b>	15,260
Power sales and other	Hydro	<b>4,384</b>	5,160
Engineering, technical, management, and administrative services	Other	<b>12</b>	17
Property, plant and equipment	Labrador Transco	<b>198</b>	-
CF Trust receivable	The Trust	<b>13</b>	16
Engineering, technical, management, and administrative services	Hydro-Québec	<b>521</b>	712
<b>Trade and other payables:</b>			
Other	Hydro-Québec	<b>2,244</b>	1,896
Engineering, technical, management, and administrative services	Nalcor	<b>845</b>	894
<b>Rental and royalty payable</b>	The Province	<b>7,540</b>	7,921
 <i>For the year ended December 31 (thousands of Canadian dollars)</i>		<b>2016</b>	2015
<b>Power sales:</b>		(Restated - Note 28)	
Long-term power contract	Hydro-Québec	<b>65,923</b>	72,915
Long-term power contract	Hydro	<b>44,164</b>	43,610
<b>Guaranteed winter availability:</b>			
Guaranteed winter availability contract	Hydro-Québec	<b>36,447</b>	36,637
<b>Operating (recovery) costs:</b>			
Engineering, technical, management, and administrative services	Hydro-Québec	<b>(814)</b>	(853)
Engineering, technical, management, and administrative services	Hydro	<b>1,841</b>	2,763
Rental and royalty expense	The Province	<b>7,374</b>	7,797
Engineering, technical, management, and administrative services	Other	<b>2,634</b>	2,050
<b>Net finance (income) expense:</b>			
Related party payable/receivable	Hydro-Québec	<b>231</b>	60

- (a) Churchill Falls has entered into long-term power contracts with its shareholders for the sale of substantially all of the power produced by the generating plant. During 2016, revenue from Hydro-Québec and Hydro was \$102,370,000 (2015 - \$109,552,000) and \$44,164,000 (2015 - \$43,610,000) respectively.
- (b) For the year ended December 31, 2016, approximately \$4,475,000 (2015 - \$4,813,000) of operating costs were charged from Hydro and Nalcor for engineering, technical, management and administrative services.
- (c) Under the terms of the Lease and amendments thereto, 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, as defined in the Lease. At December 31, 2016, \$7,540,000 (2015 - \$7,921,000) was payable to the Province.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

- (d) Churchill Falls tracks the value of differences between energy delivered and the Annual Energy Base over a four year period. The difference is then recovered from or refunded to Hydro-Québec.

The payable to Hydro-Québec as at December 31, 2016 is the accumulation of differences between energy delivered and the AEB during the four year period from September 1, 2008 to August 31, 2012 and the four year period September 1, 2012 to August 31, 2016. The current portion of \$nil (2015 - \$1,478,000) is included in trade and other payables.

For the year ended December 31, 2016, net finance (income) expense on the related party payable/receivable was \$231,000 (2015 - \$60,000).

- (e) On February 3, 2010, the Province established the Trust with Churchill Falls as the beneficiary. The purpose of the Trust is to fund the external costs and expenses incurred in relation to the motion filed by Churchill Falls seeking a modification to the pricing terms of the 1969 Power Contract. To date, \$5,339,000 (2015 - \$4,949,000) has been received and \$13,000 (2015 - \$17,000) has been accrued as receivable from the Trust.
- (f) As at December 31, 2016, Churchill Falls capacity penalty payable was \$419,000 (2015 - \$419,000). The capacity penalty relates to the supply of power to Hydro-Québec. Churchill Falls did not incur a capacity penalty in 2016 (2015 - \$nil).
- (g) During 2016, Churchill Falls received contributions of \$198,000 (2015 - \$nil) related to property, plant and equipment from Labrador Transco.

**23.1 Key Management Personnel**

Compensation for key management personnel, which Churchill Falls defines as its executives who have the primary authority and responsibility in planning, directing and controlling the activities of the entity, includes compensation for senior executives. Salaries and employee benefits include base salaries, performance contract payments, vehicle allowances and contributions to employee benefit plans. Post-employment benefits include contributions to the Province's Public Service Pension Plan.

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2016</b>	2015
Salaries and employee benefits	<b>259</b>	239
Post-employment benefits	<b>14</b>	14
	<b>273</b>	253

**24. COMMITMENTS AND CONTINGENCIES**

- (a) Outstanding commitments for capital projects total approximately \$13.2 million as at December 31, 2016 (2015 - \$18.2 million).
- (b) Churchill Falls is subject to various legal proceedings and claims in the normal course of business. Although the outcome of such actions cannot be predicted with certainty, Management currently believes Churchill Falls' exposure to such claims and litigation, to the extent not covered by insurance policies or otherwise provided for, will not materially affect its financial position.
- (c) The arrangements under which Churchill Falls supplies the 225 MW Twinco Block to Twin Falls expired on December 31, 2014. As a result, a new power purchase agreement (PPA) between Churchill Falls and Hydro for the sale of up to 225 MW of power produced by the Churchill Falls Generating Station was signed by Churchill Falls and Hydro and was effective January 1, 2015 and is in effect to August 31, 2041.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

The Sub-lease between Twin Falls and Churchill Falls dated November 15, 1961 giving Twin Falls the right to develop hydroelectric power on the Unknown River expired on December 31, 2014. A sub-lease was signed between Hydro, Churchill Falls and Twin Falls naming Hydro as the sub-lessee of the transmission lines and related assets from Churchill Falls to Labrador West, covering the period of January 1 to June 30, 2015. The term of this Sub-lease between Hydro and Churchill Falls has been extended to March 31, 2017.

Discussions continue between Churchill Falls, Twin Falls and Hydro regarding the commercial matters arising from the expiration of the Sub-lease, including the ownership of assets and the assumption of liabilities related thereto (including any environmental liabilities). The financial statements of Twin Falls for the year ended December 31, 2016 do not include adjustments to the carrying values and classification of assets and liabilities as they are undeterminable at this time. These adjustments could be material.

**25. CAPITAL MANAGEMENT**

Churchill Falls' objective when managing capital is to maintain its ability to continue as a going concern. Churchill Falls' requirements for capital in the future are expected to increase, coincident with the aging of the plant and related infrastructure and the execution of the long-term asset management plan. The focus of the capital management policy is to provide flexibility to ensure cash continues to be available to satisfy capital requirements. Managing the level of dividend payments is a key aspect of ensuring the availability of funding to maintain the plant and infrastructure.

At present, the capital position of Churchill Falls is comprised entirely of equity capital (issued capital, shareholder contributions, reserves and retained earnings). The capital structure is adjusted through the amount of dividends paid to shareholders.

Churchill Falls maintains a \$10.0 million Canadian or US equivalent unsecured operating credit facility with its banker. Advances may take the form of a Prime Rate advance or the issuance of a Bankers' Acceptance (BA) with interest calculated at the Prime Rate or prevailing Government BA Fee. The facility provides coverage for overdrafts on Churchill Falls' bank accounts, with interest calculated at the Prime Rate. There were no amounts drawn on this facility as at December 31, 2016 (2015 - \$nil).

Churchill Falls has issued three irrevocable letters of credit totalling \$2.0 million (2015 - \$2.0 million), \$1.0 million of which does not impact the borrowing limit of the operating credit facility (2015 - \$1.0 million). The letters of credit ensure satisfactory management of its waste management system and compliance with a certificate of approval for the transportation of special and hazardous wastes, granted by the Provincial Department of Environment and Conservation.

**26. SUPPLEMENTARY CASH FLOW INFORMATION**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2016</b>	<b>2015</b>
		(Restated - Note 28)
Trade and other receivables	<b>3,396</b>	(2,475)
Inventories	<b>(479)</b>	(1,067)
Prepayments	<b>(131)</b>	(49)
Trade and other payables	<b>(1,772)</b>	2,629
Rental and royalty payable	<b>(381)</b>	3,071
Change in non-cash working capital balances	<b>633</b>	2,109

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

**27. COMPARATIVE FIGURES**

Certain of the comparative figures have been reclassified to conform to the basis of presentation adopted during the current reporting year. The changes have been summarized as follows:

<i>(thousands of Canadian dollars)</i>	Previously reported	Reserve fund	Reclassified balance
Current portion of reserve fund	-	16,437	<b>16,437</b>
Reserve fund	47,015	(16,437)	<b>30,578</b>

**28. PRIOR PERIOD ADJUSTMENTS**

The January 1, 2015 and December 31, 2015 figures have been restated as a result of a misstatement relating to the calculation of the other post-employment benefit ('OPEB') health and dental liabilities for retirees. The December 31, 2015 figures have been restated to reduce employee future benefits by \$4,375,000 and reserves by \$2,271,000 and increase opening retained earnings by \$1,935,000 and rental and royalty payable by \$169,000.

The following table summarizes the adjustments to the affected accounts from the previously issued 2015 audited financial statements to the current year comparative figures:

<i>(thousands of Canadian dollars)</i>	Previously stated 2015	Adjustment 2015	Restated 2015
<b>Statement of Financial Position</b>			
Rental and royalty payable	7,752	169	7,921
Employee future benefits	31,339	(4,375)	26,964
Reserves	(7,205)	2,271	(4,934)
Retained earnings	602,368	1,935	604,303
<b>Statement of Profit and Comprehensive Income</b>			
Operating costs	69,178	(493)	68,685
Actuarial gain on employee benefits liability	3,808	(2,977)	831
<b>Statement of Changes in Equity</b>			
Employee Benefit Reserve, Balance at January 1, 2015	(11,864)	5,248	(6,616)
Retained earnings, Balance at January 1, 2015	554,177	1,442	555,619
Profit for the year	61,908	493	62,401
Actuarial gain on employee benefits liability	3,808	(2,977)	831
<b>Statement of Cash Flows</b>			
Profit for the year	61,908	493	62,401
Changes in non-cash working capital balances	2,066	43	2,109
Employee benefits	2,045	(536)	1,509

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**FINANCIAL STATEMENTS**  
**December 31, 2017**

## Independent Auditor's Report

To the Shareholders of Churchill Falls (Labrador) Corporation Limited

We have audited the accompanying financial statements of Churchill Falls (Labrador) Corporation Limited, which comprise the statement of financial position as at December 31, 2017 and the statements of profit and comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

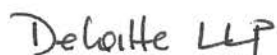
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Churchill Falls (Labrador) Corporation Limited as at December 31, 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Chartered Professional Accountants  
March 5, 2018

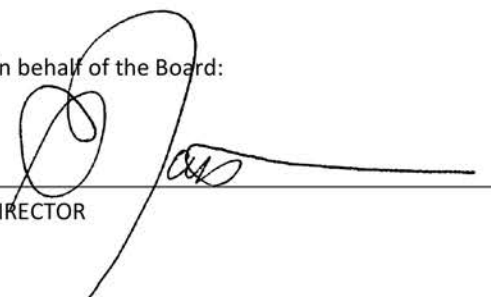
**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**STATEMENT OF FINANCIAL POSITION**

<i>As at December 31 (thousands of Canadian dollars)</i>	Notes	2017	2016
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	5	46,154	35,662
Short-term investments	20	22,095	-
Trade and other receivables	6	20,117	20,393
Inventories	7	19,603	19,232
Current portion of reserve fund	12	-	7,466
Prepayments		2,460	2,063
<b>Total current assets</b>		<b>110,429</b>	<b>84,816</b>
Non-current assets			
Property, plant and equipment	8	694,730	654,198
Intangible assets	9	699	681
Investment in joint venture	10	1,949	1,868
Long-term investments	11	51,600	51,600
Reserve fund	12	-	15,132
<b>Total assets</b>		<b>859,407</b>	<b>808,295</b>
<b>LIABILITIES AND EQUITY</b>			
Current liabilities			
Trade and other payables	13	37,453	26,069
Rental and royalty payable		6,357	7,540
Current portion of deferred contributions	14	748	748
<b>Total current liabilities</b>		<b>44,558</b>	<b>34,357</b>
Non-current liabilities			
Deferred contributions	14	10,504	11,496
Decommissioning liabilities	15	1,797	1,970
Employee future benefits	16	29,487	27,548
<b>Total liabilities</b>		<b>86,346</b>	<b>75,371</b>
Shareholders' equity			
Share capital	18	82,900	82,900
Contributed capital	18	6,160	5,550
Reserves	17	(5,821)	(4,274)
Retained earnings		689,822	648,748
<b>Total equity</b>		<b>773,061</b>	<b>732,924</b>
<b>Total liabilities and equity</b>		<b>859,407</b>	<b>808,295</b>

Commitments and contingencies (Note 24)

See accompanying notes

On behalf of the Board:



\_\_\_\_\_  
 DIRECTOR



\_\_\_\_\_  
 DIRECTOR

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

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	Notes	2017	2016
Power sales		<b>101,330</b>	110,087
Guaranteed winter availability		<b>36,635</b>	36,447
Other revenue	14	<b>743</b>	777
<b>Revenue</b>		<b>138,708</b>	147,311
Operating costs	19	<b>66,674</b>	67,547
Depreciation and amortization	8,9	<b>25,131</b>	23,581
Net finance income	20	<b>(1,503)</b>	(1,455)
Other expense	21	<b>703</b>	550
Share of profit of joint venture	10	<b>(81)</b>	(16)
<b>Expenses</b>		<b>90,924</b>	90,207
<b>Profit for the year</b>		<b>47,784</b>	57,104
Other comprehensive loss for the year			
Net fair value loss on available-for-sale financial instruments	17	<b>(161)</b>	(409)
Amounts reclassified to profit	17	<b>(70)</b>	(216)
Actuarial (loss) gain on employee benefits liability	16,17	<b>(1,316)</b>	1,285
<b>Other comprehensive (loss) income for the year</b>		<b>(1,547)</b>	660
<b>Total comprehensive income for the year</b>		<b>46,237</b>	57,764

*See accompanying notes*

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

<i>(thousands of Canadian dollars)</i>	Notes	Share Capital	Contributed Capital	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
<b>Balance at January 1, 2017</b>		<b>82,900</b>	<b>5,550</b>	<b>231</b>	<b>(4,505)</b>	<b>648,748</b>	<b>732,924</b>
<b>Profit for the year</b>		-	-	-	-	<b>47,784</b>	<b>47,784</b>
<b>Other comprehensive income</b>							
<b>Net fair value loss on available-for-sale financial instruments</b>	17	-	-	(161)	-	-	(161)
<b>Amounts reclassified to profit or loss</b>	17	-	-	(70)	-	-	(70)
<b>Actuarial loss on employee benefits liability</b>	16,17	-	-	-	(1,316)	-	(1,316)
<b>Total comprehensive (loss) income for the year</b>		-	-	(231)	(1,316)	<b>47,784</b>	<b>46,237</b>
<b>Contributed capital</b>	18	-	<b>610</b>	-	-	-	<b>610</b>
<b>Preferred dividends</b>	18	-	-	-	-	(6,710)	(6,710)
<b>Balance at December 31, 2017</b>		<b>82,900</b>	<b>6,160</b>	-	<b>(5,821)</b>	<b>689,822</b>	<b>773,061</b>
Balance at January 1, 2016		82,900	4,966	856	(5,790)	604,303	687,235
Profit for the year		-	-	-	-	57,104	57,104
Other comprehensive income							
Net fair value loss on available-for-sale financial instruments	17	-	-	(409)	-	-	(409)
Amounts reclassified to profit or loss	17	-	-	(216)	-	-	(216)
Actuarial gain on employee benefits liability	16,17	-	-	-	1,285	-	1,285
<b>Total comprehensive (loss) income for the year</b>		-	-	(625)	1,285	57,104	57,764
<b>Contributed capital</b>	18	-	<b>584</b>	-	-	-	<b>584</b>
<b>Preferred dividends</b>	18	-	-	-	-	(12,659)	(12,659)
<b>Balance at December 31, 2016</b>		<b>82,900</b>	<b>5,550</b>	<b>231</b>	<b>(4,505)</b>	<b>648,748</b>	<b>732,924</b>

See accompanying notes

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

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	Notes	<b>2017</b>	2016
<b>Operating activities</b>			
Profit for the year		<b>47,784</b>	57,104
Adjusted for items not involving a cash flow:			
Depreciation and amortization	8,9	<b>25,131</b>	23,581
Amortization of deferred contributions	14	<b>(743)</b>	(777)
Employee benefits	16	<b>623</b>	1,869
Loss on disposal of property, plant and equipment	14,21	<b>1,026</b>	683
Accretion of decommissioning liability	15,20	<b>71</b>	45
Net discount on reserve fund	12	<b>(70)</b>	(216)
Share of profit of joint venture	10	<b>(81)</b>	(16)
Decommissioning liabilities settled	15	<b>(166)</b>	(467)
		<b>73,575</b>	81,806
Changes in non-cash working capital balances	26	<b>(652)</b>	3,974
<b>Net cash provided from operating activities</b>		<b>72,923</b>	85,780
<b>Investing activities</b>			
Additions to property, plant and equipment	8	<b>(69,999)</b>	(62,125)
Additions to intangible assets	9	<b>(173)</b>	(161)
Increase in short-term investments	5	<b>(22,095)</b>	-
Increase in long-term investments	11	-	(51,600)
Withdrawal from reserve fund	12	<b>22,437</b>	24,008
Changes in non-cash working capital balances	26	<b>10,361</b>	(3,341)
Proceeds on disposal of property, plant and equipment		<b>3,138</b>	252
<b>Net cash used in investing activities</b>		<b>(56,331)</b>	(92,967)
<b>Financing activities</b>			
Increase in contributed capital	18	<b>610</b>	584
Preferred dividends	18	<b>(6,710)</b>	(12,659)
<b>Net cash used in financing activities</b>		<b>(6,100)</b>	(12,075)
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>10,492</b>	(19,262)
<b>Cash and cash equivalents, beginning of year</b>		<b>35,662</b>	54,924
<b>Cash and cash equivalents, end of year</b>		<b>46,154</b>	35,662
Interest received		<b>1,923</b>	2,744
Interest paid		<b>40</b>	69

# CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

## NOTES TO FINANCIAL STATEMENTS

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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 (MW). 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 (the Lease) 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 annual audited financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Churchill Falls has adopted accounting policies which are based on the IFRS applicable as at December 31, 2017, and include individual IFRS, International Accounting Standards (IAS), and interpretations made by the IFRS Interpretations Committee and the Standing Interpretations Committee.

These annual audited financial statements have been prepared on a historical cost basis, except for financial assets and financial liabilities which have been measured at fair value. The annual audited financial statements are presented in Canadian Dollars and all values rounded to the nearest thousand, except when otherwise noted. The annual audited financial statements were approved by Churchill Falls' Board of Directors on February 27, 2018.

#### 2.2 Cash and Cash Equivalents and Short-term Investments

Cash and cash equivalents consist of amounts on deposit with a Schedule 1 Canadian Chartered bank, as well as highly liquid investments with maturities of three months or less. Investments with maturities greater than three months and less than twelve months are classified as short-term investments. Cash and cash equivalents are measured at cost, which approximates fair value, while short-term investments are measured at fair value.

#### 2.3 Trade and Other Receivables

Trade and other receivables are classified as loans and receivables and are measured at amortized cost using the effective interest method.

#### 2.4 Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes expenditures incurred in acquiring the inventories and bringing them to their existing condition and location. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

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**2.5 Property, Plant and Equipment**

Items of property, plant and equipment are recognized using the cost model and thus are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes materials, labour, contracted services, professional fees and, for qualifying assets, borrowing costs capitalized in accordance with Churchill Falls' accounting policy outlined in Note 2.7. Costs capitalized with the related asset include all those costs directly attributable to bringing the asset into operation. When significant parts of property, plant and equipment are required to be replaced at intervals, Churchill Falls recognizes such parts as individual assets with specific useful lives and depreciation rates, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repairs and maintenance costs are recognized in the Statement of Profit and Comprehensive Income as incurred. Property, plant and equipment are not revalued for financial reporting purposes. Depreciation of these assets commences when the assets are ready for their intended use.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Hydroelectric generation plant	25 to 100 years
Transmission and terminals	30 to 65 years
Service facilities and other	5 to 45 years

The assets' residual values, useful lives and method of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate. The carrying value of property, plant and equipment is reviewed for impairment whenever events indicate that the carrying amounts of those assets may not be recoverable.

**2.6 Intangible Assets**

Assets that are expected to generate future economic benefit and are measurable, including computer software costs, costs of technical services, and studies are capitalized as intangible assets in accordance with IAS 38.

Intangible assets with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. The estimated useful life and amortization method are reviewed at the end of each year, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

Amortization is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Computer software	7 to 10 years
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**2.7 Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in the Statement of Profit and Comprehensive Income in the period in which they are incurred.

**2.8 Impairment of Non-Financial Assets**

At the end of each reporting period, Churchill Falls reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

## CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

### NOTES TO FINANCIAL STATEMENTS

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Where it is not possible to estimate the recoverable amount of an individual asset, Churchill Falls estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified. The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from non-financial assets.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the Statement of Profit and Comprehensive Income.

#### 2.9 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 33.33% 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.

#### 2.10 Employee Benefits Liability

(i) Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. Contributions by Churchill Falls to this Plan are recognized as an expense when employees have rendered service entitling them to the contributions. Liabilities associated with this Plan are held with the Province.

(ii) Other Benefits

Churchill Falls provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a retirement allowance.

The cost of providing these benefits is determined using the projected unit credit method, with actuarial valuations completed on an annual basis, based on service and Management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

Actuarial gains and losses on Churchill Falls' defined benefit obligation are recognized in reserves in the period in which they occur. Past service costs are recognized in operating costs as incurred.

The retirement benefit obligation recognized in the Statement of Financial Position represents the present value of the defined benefit obligation.

#### 2.11 Provisions

A provision is a liability of uncertain timing or amount. A provision is recognized if Churchill Falls has a present legal obligation or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. The provision is measured at the present value of the best estimate of the expenditures expected to be required to settle the obligation using a discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. Provisions are re-measured at each Statement of Financial Position date using the current discount rate.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

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**2.12 Decommissioning, Restoration and Environmental Liabilities**

Legal and constructive obligations associated with the retirement of property, plant and equipment are recorded as liabilities when those obligations are incurred and are measured as the present value of the expected costs to settle the liability, discounted at a rate specific to the liability. The liability is accreted up to the date the liability will be incurred with a corresponding charge to net finance (income) expense. The carrying amount of decommissioning, restoration and environmental liabilities is reviewed annually with changes in the estimates of timing or amount of cash flows added to or deducted from the cost of the related asset or expensed in the Statement of Profit and Comprehensive Income if the liability is short-term in nature.

**2.13 Revenue Recognition**

Revenue from the sale of energy is recognized when Churchill Falls has transferred the significant risks and rewards of ownership to the buyer, recovery of the consideration is probable, and the amount of revenue can be reliably measured. Sales within the Province are primarily at rates approved by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB), whereas export sales and sales to certain major industrial customers are either at rates under the terms of the applicable contracts, or at market rates.

Churchill Falls provides energy to two primary customers: Hydro-Québec and Hydro.

A power contract with Hydro-Québec dated May 12, 1969 (the Power Contract) provides for the sale of a significant amount of the energy from Churchill Falls. The Power Contract had a 40-year term that expired August 31, 2016, and was followed by a Renewed Power Contract with Hydro-Québec for an additional 25 years beginning September 1, 2016. The rate was predetermined in the Power Contract and was 2.5426 mills per kWh. The rate during the term of the Renewed Power Contract is 2.0 mills per kWh.

Churchill Falls also recognizes revenue from Hydro-Québec under a Guaranteed Winter Availability Contract (GWAC) through 2041. The GWAC was signed with Hydro-Québec in 1998 and provides for the sale of 682 MW of guaranteed seasonal availability to Hydro-Québec during the months of November through March in each of the remaining years until 2041.

Under the Power Contract and Renewed Power Contract, Churchill Falls has the right to recall 300 MW (Recall Power). All of the Recall Power is sold by Churchill Falls to Hydro. Churchill Falls also provides 225 MW to Hydro.

**2.14 Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Lessor accounting

Amounts due from lessees under finance leases are recognized as receivables at the amount of Churchill Falls' net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on Churchill Falls' net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Lessee accounting

Assets held under finance leases are initially recognized as assets of Churchill Falls' at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation.

# CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

## NOTES TO FINANCIAL STATEMENTS

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Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with Churchill Falls' general policy on borrowing costs (Note 2.7). Contingent rental costs are recognized as operating costs in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### 2.15 Net Finance (Income) Expense

For all financial instruments measured at amortized cost and interest bearing financial assets classified as available-for-sale (AFS), interest income or expense is recorded using the effective interest rate method.

### 2.16 Foreign Currencies

Transactions in currencies other than Churchill Falls' functional currency (foreign currencies) are recognized using the exchange rate in effect at the date of the transaction, approximated by the prior month end close rate. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates of exchange in effect at the period end date. Foreign exchange gains and losses are included in the Statement of Profit and Comprehensive Income as other income (expense).

### 2.17 Income Taxes

Churchill Falls is exempt from paying income taxes under Section 149(1) (d.2) of the Income Tax Act.

### 2.18 Financial Instruments

Financial assets and financial liabilities are recognized in the Statement of Financial Position when Churchill Falls becomes a party to the contractual provisions of the instrument and are initially measured at fair value. Subsequent measurement is based on classification. Financial instruments are classified into the following specified categories: financial assets at fair value through profit or loss (FVTPL), AFS financial assets, loans and receivables, held-to-maturity investments, financial liabilities at FVTPL, financial instruments used for hedging and other financial liabilities. The classification depends on the nature and purpose of the financial instruments and is determined at the time of initial recognition.

#### Classification of Financial Instruments

Churchill Falls has classified each of its financial instruments into the following categories: loans and receivables, AFS financial assets, and other financial liabilities.

#### Financial Instrument

Cash and cash equivalents  
Short-term investments  
Trade and other receivables  
Long-term investments  
Reserve fund (current and long-term)  
Trade and other payables  
Rental and royalty payable

#### Category

Loans and receivables  
AFS financial assets  
Loans and receivables  
AFS financial assets  
AFS financial assets  
Other financial liabilities  
Other financial liabilities

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

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(i) Effective Interest Method

The effective interest method is a method of calculating the amortized cost of a financial instrument and allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income or expense is recognized on an effective interest basis for financial instruments other than those financial assets or liabilities classified as at FVTPL.

Financial Assets

(ii) AFS Financial Assets

AFS financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the previous categories. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the fair value reserve with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified to profit or loss.

(iii) Loans and Receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Financial Liabilities and Equity Instruments

(iv) Other Financial Liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

**2.19 Derecognition of Financial Instruments**

Churchill Falls derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If Churchill Falls neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, its retained interest in the asset and an associated liability for amounts it may have to pay is recognized. If Churchill Falls retains substantially all the risks and rewards of ownership of a transferred financial asset, it continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received. Churchill Falls derecognizes financial liabilities when, and only when, its obligations are discharged, cancelled or they expire.

**2.20 Impairment of Financial Assets**

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- the borrower, more probable than not, entering into bankruptcy or financial re-organization

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

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For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include Churchill Falls' past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income (loss) are reclassified to profit or loss in the period.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

**2.21 Government Grants**

Government grants are recognized when there is reasonable assurance that Churchill Falls will comply with the associated conditions and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which Churchill Falls recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that Churchill Falls should purchase, construct or otherwise acquire non-current assets are recognized as deferred contributions in the Statement of Financial Position and transferred to the Statement of Profit and Comprehensive Income on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to Churchill Falls with no future related costs are recognized in the Statement of Profit and Comprehensive Income in the period in which they become receivable.

**3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the annual audited financial statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ materially from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is reviewed if the revision affects only that period or in future periods.

### **3.1 Use of Estimates**

(i) Property, Plant and Equipment

Amounts recorded for depreciation are based on the useful lives of Churchill Falls' assets. The useful lives of property, plant and equipment are determined by independent specialists and reviewed annually by Churchill Falls. These useful lives are Management's best estimate of the service lives of these assets. Changes to these lives could materially affect the amount of depreciation recorded.

(ii) Intangible Assets

Amounts recorded for amortization are based on the useful lives of Churchill Falls' assets. These useful lives are Management's best estimate of the service lives of these assets. Changes to these lives could materially affect the amount of amortization recorded.

(iii) Decommissioning Liabilities

Churchill Falls recognizes a liability for the fair value of the future expenditures required to settle obligations associated with the retirement of property, plant and equipment. Decommissioning liabilities are recorded as a liability at fair value, with a corresponding increase to property, plant and equipment. Accretion of decommissioning liabilities is included in the Statement of Profit and Comprehensive Income through net finance (income) expense. Differences between the recorded decommissioning liabilities and the actual decommissioning costs incurred are recorded as a gain or loss in the settlement period.

(iv) Employee Benefits

Churchill Falls provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a severance payment upon retirement. The expected cost of providing these other employee benefits is accounted for on an accrual basis, and has been actuarially determined using the projected unit credit method prorated on service, and Management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

(v) Revenue

In the absence of a signed agreement with Hydro-Québec relating to the Annual Energy Base (AEB), Churchill Falls has an agreement with Hydro-Québec to continue to use the 2008 AEB on an interim basis until final judgment is obtained in the Declaratory Judgment case.

### **3.2 Use of Judgment**

(i) Asset Impairment and Reversals

Churchill Falls applies judgment in evaluating impairment and impairment reversal indicators based on various internal and external factors.

The recoverable amount of a CGU or asset is determined based on the higher of fair value less costs of disposal and its value in use. Management uses judgment in selecting discount rates and considering the occurrence of future events when determining the recoverable amount. Changes in these factors will affect the recoverable amount of CGUs and assets, which may result in a material adjustment to their carrying value.

(ii) Property, Plant and Equipment

Churchill Falls' accounting policy relating to property, plant and equipment is described in Note 2.5. In applying this policy, judgment is used in determining whether certain costs are additions to the carrying amount of the property, plant and equipment as opposed to repairs and maintenance. If an asset has been developed, judgment is required to identify the point at which the asset is capable of being used as intended and to identify the directly attributable borrowing costs to be included in the carrying value of the development asset. Judgment is also used in determining the appropriate componentization structure for Churchill Falls' property, plant and equipment.

## CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

### NOTES TO FINANCIAL STATEMENTS

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(iii) Determination of CGUs

Churchill Falls' accounting policy relating to impairment of non-financial assets is described in Note 2.8. In applying this policy, Churchill Falls groups assets into the smallest identifiable groups for which cash flows are largely independent of the cash flows from other assets or groups of assets. Judgment is used in determining the level at which cash flows are largely independent of other assets or groups of assets.

(iv) Discount Rates

Certain of Churchill Falls' financial liabilities are discounted using discount rates that are subject to Management's judgment.

(v) Consolidation of Joint Arrangements

Management exercises judgment when applying the criteria outlined in IFRS 11 to determine whether joint arrangements constitute joint ventures or joint operations. Management has determined that its interest in Twin Falls is considered a joint venture.

#### 4. CURRENT AND FUTURE CHANGES IN ACCOUNTING POLICIES

Amendments to IAS 7 – Disclosure Initiatives became effective for annual periods beginning on or after January 1, 2017 and did not have a material impact on Churchill Falls' annual audited financial statements.

Churchill Falls has not applied the following new and revised IFRS that have been issued but are not yet effective:

IFRS 9 - Financial Instruments<sup>1</sup>

IFRS 15 - Revenue from Contracts with Customers<sup>1</sup>

IFRIC 22 – Foreign Currency Transactions and Advance Considerations<sup>1</sup>

IFRS 16 – Leases<sup>2</sup>

<sup>1</sup>Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

<sup>2</sup>Effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

##### 4.1 IFRS 9 Financial Instruments

In July 2014, the IASB finalized the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which contains the requirements for a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting. IFRS 9 (as revised in 2014) will supersede IAS 39 Financial Instruments: Recognition and Measurement upon its effective date.

##### ***Phase 1: Classification and measurement of financial assets and financial liabilities***

With respect to classification and measurement, the number of categories of financial assets under IFRS 9 has been reduced; all recognized financial assets that are currently within the scope of IAS 39 will be subsequently measured at either amortized cost or fair value under IFRS 9.

IFRS 9 also contains requirements for the classification and measurement of financial liabilities and derecognition requirements. One major change from IAS 39 relates to the presentation of changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of that liability. Under IFRS 9, such changes are presented in other comprehensive income, unless the presentation of the effect of the change in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

***Phase 2: Impairment of financial assets***

The impairment model under IFRS 9 reflects expected credit losses, as opposed to incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

***Phase 3: Hedge accounting***

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required. Far more disclosure requirements about an entity's risk management activities have been introduced.

***Transitional provisions***

IFRS 9 (as revised in 2014) is effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. Management has elected to adopt the standard as of the effective date, and although the classifications of existing financial instruments and related disclosures will change, there will be no material adjustments on the amounts reported in Churchill Falls' annual audited financial statements.

**4.2 IFRS 15 Revenue from Contracts with Customers**

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It will supersede the following revenue standards and interpretations upon its effective date:

- IAS 18 Revenue;
- IAS 11 Construction Contracts;
- IFRIC 13 Customer Loyalty Programs;
- IFRIC 15 Agreements for the Construction of Real Estate;
- IFRIC 18 Transfers of Assets from Customers; and
- SIC 31 Revenue-Barter Transactions Involving Advertising Services.

As suggested by the title of the new revenue standard, IFRS 15 will only cover revenue arising from contracts with customers. Under IFRS 15, a customer of an entity is a party that has contracted with the entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. Unlike the scope of IAS 18, the recognition and measurement of interest income and dividend income from debt and equity investments are no longer within the scope of IFRS 15. Instead, they are within the scope of IAS 39 (or IFRS 9 if it is early adopted).

As mentioned above, the new standard has a single model to deal with revenue from contracts with customers. Its core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Specifically, the Standard introduces a five-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Extensive disclosures are also required by the new standard.

## CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

### NOTES TO FINANCIAL STATEMENTS

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IFRS 15, together with clarifications thereto issued in April 2016, is effective for reporting periods beginning on or after January 1, 2018 with earlier application permitted. Management has elected to adopt the standard as of the effective date and although the related disclosure will change, there will be no material adjustments on the amounts reported in Churchill Falls' annual audited financial statements.

#### 4.3 Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue).

The Interpretation is effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. Entities can apply the Interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application. The application of these amendments to IFRIC 22 will not have a material impact on Churchill Falls' annual audited financial statements.

#### 4.4 IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It will supersede the following lease standard and interpretations upon its effective date:

- IAS 17 Leases;
- IFRIC 4 Determining Whether an Arrangement contains a Lease;
- SIC-15 Operating Leases – Incentives; and
- SIC-27 Evaluation the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer.

The standard introduces significant changes to lessee accounting: it removes the distinction between operating and finance leases under IAS 17 and requires a lessee to recognize a right-of-use asset and a lease liability at lease commencement for all leases, except for short-term leases and leases of low value assets.

In contrast to lessee accounting, the IFRS 16 lessor accounting requirements remain largely unchanged from IAS 17, which continue to require a lessor to classify a lease as either an operating lease or a finance lease.

IFRS 16 is effective for reporting periods beginning on or after January 1, 2019 with early application permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. A lessee can apply IFRS 16 either by a full retrospective approach or a modified retrospective approach. If the latter approach is selected, an entity is not required to restate the comparative information and the cumulative effect of initially applying IFRS 16 must be presented as an adjustment to opening retained earnings. Management does not anticipate that the application of IFRS 16 in the future will have a material impact on the amounts reported and disclosures made in Churchill Falls' annual audited financial statements.

## 5. CASH AND CASH EQUIVALENTS

<i>As at December 31 (thousands of Canadian dollars)</i>	2017	2016
Cash	46,154	15,552
Cash equivalents	-	20,110
	<b>46,154</b>	<b>35,662</b>

The effective interest rate on cash equivalents at December 31, 2017 was nil (2016 - 0.97% per annum).

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

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**6. TRADE AND OTHER RECEIVABLES**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2017</b>	2016
Due from related parties	<b>18,060</b>	18,395
Other receivables	<b>2,057</b>	1,998
	<b>20,117</b>	20,393

Other receivables include HST and other miscellaneous amounts.

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2017</b>	2016
0-60 days	<b>19,194</b>	20,288
60+ days	<b>923</b>	105
	<b>20,117</b>	20,393

**7. INVENTORIES**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2017</b>	2016
Materials and other	<b>16,794</b>	16,427
Construction aggregates	<b>2,701</b>	2,701
Fuel	<b>108</b>	104
	<b>19,603</b>	19,232

The cost of inventories recognized as an expense during the year is \$2.7 million (2016 - \$3.0 million) and is included in operating costs in the Statement of Profit and Comprehensive Income.

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**NOTES TO FINANCIAL STATEMENTS**

**8. PROPERTY, PLANT AND EQUIPMENT**

<i>(thousands of Canadian dollars)</i>	Hydroelectric Generation Plant	Transmission and Terminals	Service Facilities and Other	Construction in Progress	Total
<b>Cost</b>					
Balance at January 1, 2016	776,739	249,807	190,037	22,818	1,239,401
Additions	(78)	-	33	62,170	62,125
Decommissioning liabilities and revisions	-	1,096	-	-	1,096
Disposals	(2,239)	(1,044)	(2,582)	-	(5,865)
Transfers	26,383	22,028	20,068	(68,479)	-
<b>Balance at December 31, 2016</b>	<b>800,805</b>	<b>271,887</b>	<b>207,556</b>	<b>16,509</b>	<b>1,296,757</b>
<b>Additions</b>	<b>-</b>	<b>333</b>	<b>-</b>	<b>69,666</b>	<b>69,999</b>
<b>Decommissioning liabilities and revisions</b>	<b>-</b>	<b>(78)</b>	<b>-</b>	<b>-</b>	<b>(78)</b>
<b>Disposals</b>	<b>(1,883)</b>	<b>(8,474)</b>	<b>(3,705)</b>	<b>-</b>	<b>(14,062)</b>
<b>Transfers</b>	<b>25,932</b>	<b>21,852</b>	<b>13,666</b>	<b>(61,450)</b>	<b>-</b>
<b>Balance at December 31, 2017</b>	<b>824,854</b>	<b>285,520</b>	<b>217,517</b>	<b>24,725</b>	<b>1,352,616</b>
<b>Depreciation</b>					
Balance at January 1, 2016	412,418	130,344	81,182	-	623,944
Depreciation	10,745	4,271	8,417	-	23,433
Disposals	(1,652)	(850)	(2,316)	-	(4,818)
<b>Balance at December 31, 2016</b>	<b>421,511</b>	<b>133,765</b>	<b>87,283</b>	<b>-</b>	<b>642,559</b>
<b>Depreciation</b>	<b>11,411</b>	<b>4,795</b>	<b>8,770</b>	<b>-</b>	<b>24,976</b>
<b>Disposals</b>	<b>(1,306)</b>	<b>(5,919)</b>	<b>(2,424)</b>	<b>-</b>	<b>(9,649)</b>
<b>Balance at December 31, 2017</b>	<b>431,616</b>	<b>132,641</b>	<b>93,629</b>	<b>-</b>	<b>657,886</b>
<b>Carrying value</b>					
Balance at January 1, 2016	364,321	119,463	108,855	22,818	615,457
Balance at December 31, 2016	379,294	138,122	120,273	16,509	654,198
<b>Balance at December 31, 2017</b>	<b>393,238</b>	<b>152,879</b>	<b>123,888</b>	<b>24,725</b>	<b>694,730</b>

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

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**9. INTANGIBLE ASSETS**

*(thousands of Canadian dollars)*

Software

Cost

Balance at January 1, 2016	1,238
Additions	161
Balance at December 31, 2016	1,399
<b>Additions</b>	<b>173</b>
<b>Balance at December 31, 2017</b>	<b>1,572</b>

Amortization

Balance at January 1, 2016	570
Amortization	148
Balance at December 31, 2016	718
<b>Amortization</b>	<b>155</b>
<b>Balance at December 31, 2017</b>	<b>873</b>

Carrying value

Balance at January 1, 2016	668
Balance at December 31, 2016	681
<b>Balance at December 31, 2017</b>	<b>699</b>

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

**10. INVESTMENT IN JOINT VENTURE**

Churchill Falls holds a 33.33% equity shareholding and majority voting power in Twin Falls, subject to the provisions of the Participation Agreement. Twin Falls is incorporated under the laws of Canada and developed a 225 MW hydroelectric generating plant on the Unknown River in Labrador. The plant has been inoperative since 1974. There has been no change in Churchill Falls' ownership or voting interest during the year.

The following is summarized financial information with respect to Twin Falls:

<i>(thousands of Canadian dollars)</i>	<b>2017</b>	2016
Current assets	<b>5,927</b>	5,624
Non-current assets	<b>16</b>	58
Current liabilities	<b>91</b>	62
Non-current liabilities	<b>1</b>	12
Net assets	<b>5,851</b>	5,608
Churchill Falls' share of net assets	<b>1,949</b>	1,868
Total revenue	<b>54</b>	39
Total profit	<b>243</b>	47
Churchill Falls' share of profit	<b>81</b>	16

The above amounts of assets and liabilities include the following:

Cash and cash equivalents	<b>861</b>	5,572
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**11. LONG-TERM INVESTMENTS**

<i>As at December 31 (thousands of Canadian dollars)</i>	Year of Maturity	<b>2017</b>	2016
\$28.0 million Redeemable GIC, interest at 1.40%	2019	<b>28,000</b>	28,000
\$23.6 million Redeemable GIC, interest at 1.46%	2019	<b>23,600</b>	23,600
		<b>51,600</b>	51,600

**12. RESERVE FUND**

In 2007 Churchill Falls commenced the creation of a \$75.0 million segregated reserve fund pursuant to the terms of the Shareholders' Agreement to contribute towards the funding of capital expenditures related to Churchill Falls' existing facilities and their replacement. Churchill Falls invested \$17.0 million in each of 2007, 2008 and 2009 and \$8.0 million in each of 2010, 2011 and 2012. In December 2017, \$22.5 million (2016 - \$23.4 million) was withdrawn to fund a portion of capital expenditures. As per the terms of the Shareholders' Agreement, these funds will be replaced over a five year period beginning in 2018.

This fund must remain in place until the end of the Shareholders' Agreement in 2041. Any amounts removed to fund capital expenditures must be replaced. Reserve fund holdings consist of securities issued by the Government of Canada, various provinces of Canada and Schedule 1 and 2 Canadian Chartered Banks.

The reserve fund consists of the following:

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<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2017</b>	2016
Reserve fund, beginning of year	<b>22,598</b>	47,015
Principal withdrawals	<b>(22,480)</b>	(23,370)
Earnings invested (withdrawn)	<b>43</b>	(638)
Net discount	<b>70</b>	216
Mark-to-market adjustment	<b>(231)</b>	(625)
Reserve fund, end of year	-	22,598
Less: current portion	-	(7,466)
	-	15,132

Reserve fund contributions for the next five years are as follows:

<i>(thousands of Canadian dollars)</i>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Reserve fund contributions	18,750	18,750	18,750	9,375	9,375

**13. TRADE AND OTHER PAYABLES**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2017</b>	2016
Trade payables and accruals	<b>29,698</b>	19,032
Payables due to related parties	<b>3,685</b>	3,089
Other payables	<b>4,070</b>	3,948
	<b>37,453</b>	26,069

Other payables include HST and other miscellaneous amounts.

**14. DEFERRED CONTRIBUTIONS**

Churchill Falls has received contributions from Transport Canada related to the airport. These contributions are deferred and amortized to other revenue over the life of the related item of property, plant and equipment.

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2017</b>	2016
Deferred contributions, beginning of year	<b>12,244</b>	13,134
Disposals	<b>(249)</b>	(113)
Amortization	<b>(743)</b>	(777)
Deferred contributions, end of year	<b>11,252</b>	12,244
Less: current portion	<b>(748)</b>	(748)
	<b>10,504</b>	11,496

**15. DECOMMISSIONING LIABILITIES**

Churchill Falls has recognized liabilities associated with the disposal of Polychlorinated Biphenyls (PCB).

The reconciliation of the beginning and ending carrying amounts of decommissioning liabilities as at December 31, 2017 and December 31, 2016 are as follows:

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
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<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2017</b>	2016
Decommissioning liabilities, beginning of year	<b>1,970</b>	1,296
Accretion	<b>71</b>	45
Liabilities settled	<b>(166)</b>	(467)
Revisions	<b>(78)</b>	1,096
Decommissioning liabilities, end of year	<b>1,797</b>	1,970

The total estimated undiscounted cash flows required to settle the PCB obligations at December 31, 2017 are \$2.1 million (2016 - \$2.3 million). The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at the Company's credit adjusted risk free rate of 3.2% (2016 - 3.7%).

**16. EMPLOYEE FUTURE BENEFITS**

**16.1 Pension Plan**

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions for the year ended December 31, 2017 of \$2,539,000 (2016 - \$2,509,000) are expensed as incurred.

**16.2 Other Benefits**

Churchill Falls provides group life insurance and healthcare benefits on a cost shared basis to retired employees, and in certain cases, their surviving spouses, in addition to a retirement allowance. For the year ended December 31, 2017, cash payments to beneficiaries for its unfunded other employee future benefits were \$1,093,000 (December 31, 2016 - \$611,000). An actuarial valuation was performed as at December 31, 2017.

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2017</b>	2016
Accrued benefit obligation		
Balance, beginning of year	<b>27,548</b>	26,964
Current service cost	<b>1,208</b>	1,329
Interest cost	<b>1,088</b>	1,146
Transfers	<b>(580)</b>	5
Benefits paid	<b>(1,093)</b>	(611)
Actuarial loss (gain)	<b>1,316</b>	(1,285)
Balance, end of year	<b>29,487</b>	27,548

<i>For the year end December 31 (thousands of Canadian dollars)</i>	<b>2017</b>	2016
Component of benefit cost		
Current service cost	<b>1,208</b>	1,329
Interest cost	<b>1,088</b>	1,146
Total benefit expense for the year	<b>2,296</b>	2,475

The significant actuarial assumptions used in measuring the accrued benefit obligations and benefit expenses are as follows:

	<b>2017</b>	2016
Discount rate - benefit cost	<b>3.90%</b>	4.10%
Discount rate - accrued benefit obligation	<b>3.55%</b>	3.90%
Rate of compensation increase	<b>3.50%</b>	3.50%

Assumed healthcare trend rates:

	<b>2017</b>	2016
Initial healthcare expense trend rate	<b>6.00%</b>	5.85%
Cost trend decline to	<b>4.50%</b>	4.50%
Year that rate reaches the rate it is assumed to remain at	<b>2028</b>	2025

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
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A 1% change in assumed healthcare trend rates would have had the following effects:

<i>Increase (thousands of Canadian dollars)</i>	<b>2017</b>	2016
Current service and interest cost	<b>530</b>	477
Accrued benefit obligation	<b>5,057</b>	4,617
<i>Decrease (thousands of Canadian dollars)</i>	<b>2017</b>	2016
Current service and interest cost	<b>(380)</b>	(346)
Accrued benefit obligation	<b>(3,823)</b>	(3,510)

**17. ACCUMULATED OTHER COMPREHENSIVE INCOME**

The components of, and changes in, accumulated other comprehensive (loss) income are as follows:

*Items that will not be reclassified to profit or loss:*

<i>(thousands of Canadian dollars)</i>	<b>2017</b>	2016
Employee benefits liability		
Balance at January 1	<b>(4,505)</b>	(5,790)
Net actuarial (loss) gain on defined benefit plan	<b>(1,316)</b>	1,285
Balance at December 31	<b>(5,821)</b>	(4,505)

*Items that may or have been reclassified to profit or loss:*

<i>(thousands of Canadian dollars)</i>	<b>2017</b>	2016
Available-for-sale financial instruments		
Balance at January 1	<b>231</b>	856
Net fair value loss	<b>(161)</b>	(409)
Amounts reclassified to profit	<b>(70)</b>	(216)
Balance at December 31	<b>-</b>	231

**18. SHAREHOLDERS' EQUITY**

**18.1 Share Capital**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2017</b>	2016
Common shares without nominal or par value		
Authorized - unlimited		
Issued, fully paid and outstanding - 8,759,999	<b>82,900</b>	82,900
Preferred shares without nominal or par value		
Authorized - 3		
Issued, fully paid and outstanding - 3	<b>-</b>	-

Additional shares cannot be issued without the approval of a majority of the directors on the Board of Directors, including at least one director nominated by Hydro and one director nominated by Hydro-Québec.

The preferred shares are divided into three classes, one of each has been issued, and the dividends thereon, which rank ahead of dividends on common shares, are as follows:

The Class A Cumulative Preferred Shareholder is entitled to dividend payments calculated as the amount equal to the income taxes which would have been received by the Province had Churchill Falls continued to be a taxable corporation.

The Class B and Class C Redeemable Cumulative Preferred Shareholders are no longer entitled to receive dividends.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

**18.2 Contributed Capital**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2017</b>	2016
Twin Falls Power Corporation Limited (Twin Falls)	55	-
Labrador Transmission Corporation (Labrador Transco)	494	198
Churchill Falls (Labrador) Corporation Trust (the Trust)	5,611	5,352
<b>Total contributed capital</b>	<b>6,160</b>	5,550

During 2017, Twin Falls contributed \$55,000 related to property, plant and equipment (2016 - \$nil), Labrador Transco contributed \$296,000 (2016 - \$198,000) related to property, plant and equipment and the Trust contributed \$259,000 (2016 - \$386,000).

**18.3 Dividends Paid and Proposed**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2017</b>	2016
Declared during the year		
Final preferred dividend for prior year	515	1,243
Interim preferred dividend for current year	6,195	11,416
	<b>6,710</b>	12,659
Proposed for approval, not recognized as payable at December 31		
Final dividend underpayment for current year	1,268	515

During 2017, Churchill Falls did not pay any common dividends (2016 - \$nil).

**19. OPERATING COSTS**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2017</b>	2016
Salaries and benefits expense	39,497	41,377
Maintenance and materials	11,755	10,126
Rental and royalty expense	6,357	7,374
Professional services	3,683	4,867
Insurance	3,155	2,677
Other operating costs	2,227	1,126
	<b>66,674</b>	67,547

**20. NET FINANCE INCOME**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2017</b>	2016
Finance income		
Interest on reserve fund	406	1,123
Interest on short-term investments	977	137
Other interest income	231	514
	<b>1,614</b>	1,774
Finance expense		
Interest on related party payable / receivable	-	231
Accretion of decommissioning liability	71	45
Other interest expense	40	43
	<b>111</b>	319
<b>Net finance income</b>	<b>(1,503)</b>	(1,455)

The effective interest rate on short-term investments at December 31, 2017 was 1.52% per annum (2016 - nil).

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

**21. OTHER EXPENSE**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2017</b>	2016
Realized foreign exchange gain	<b>(196)</b>	(33)
Unrealized foreign exchange loss	<b>141</b>	35
Gain on sale of AFS assets	<b>(51)</b>	(176)
Loss on disposal of property, plant and equipment	<b>1,026</b>	683
Other asset disposal costs	<b>6</b>	41
Insurance proceeds	<b>(223)</b>	-
Other expense	<b>703</b>	550

**22. FINANCIAL INSTRUMENTS**

**22.1 Fair Value**

The estimated fair values of financial instruments as at December 31, 2017 and December 31, 2016 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 year. There were no transfers between Level 1, 2 and 3 fair value measurement during the years ended December 31, 2017 and December 31, 2016.

As at December 31, 2017 and December 31, 2016, Churchill Falls did not have any Level 3 instruments.

<i>(thousands of Canadian dollars)</i>	<b>Level</b>	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>
		<b>December 31, 2017</b>		<b>December 31, 2016</b>	
Financial assets					
Reserve fund	<b>2</b>	-	-	22,598	22,598

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

The fair values of cash and cash equivalents, short-term investments, trade and other receivables, trade and other payables, and rental and royalty payable approximate their carrying values due to their short-term maturity. The fair value of long-term investments approximates its carrying value due to the underlying nature of the investment.

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.

**22.2 Risk Management**

Churchill Falls is exposed to certain credit, liquidity and market price risks through its operating, financing and investing activities. Financial risk is managed in accordance with a Board approved policy, which outlines the objectives and strategies for the management of financial risk, including the use of derivative contracts. Permitted financial risk management strategies are aimed at minimizing the volatility of Churchill Falls' expected future cash flows.

Credit Risk

Expected future cash flows are exposed to credit risk through operating activities, primarily due to the potential for non-performance by customers, and through financing activities, based on the risk of non-performance by counterparties to financial instruments. The degree of exposure on cash and cash equivalents, short-term investments, accounts receivable, long-term investments, the reserve fund and energy sales depends on the financial capacity and stability of those customers and counterparties. The maximum exposure to credit risk on these financial instruments is represented by their carrying values on the Statement of Financial Position at the reporting date.

Credit exposure on energy sales is limited, as Churchill Falls' two main customers Hydro and Hydro Québec are investment grade utilities.

Credit risk on cash and cash equivalents and short-term investments is limited, as Churchill Falls' cash deposits are held by a Schedule 1 Canadian Chartered bank with a rating of A+ (Standard and Poor's). Credit risk on long-term investments is limited, as Churchill Falls' holdings are held by a Schedule 1 Canadian Chartered bank with a rating of A+ (Standard and Poor's).

Credit exposure on the reserve fund is mitigated by adhering to an investment policy which restricts the holdings to long-term debt instruments issued or guaranteed by the Government of Canada or any province of Canada. Investment in the long-term debt instruments of Canadian banks are also permitted, provided the bank is rated A or higher by Standard and Poor's. With the exception of Government of Canada, holdings of any one issuer are limited to 10% of the total principal amount of the portfolio. The following credit risk table provides information on credit exposures according to issuer type and credit rating for the reserve fund:

	Issuer Credit Rating	Fair Value of Portfolio (%)	Issuer Credit Rating	Fair Value of Portfolio (%)
	<b>2017</b>		<b>2016</b>	
Provincial governments	<b>AA- to AAA -</b>		AA- to AAA	7.32%
Provincial governments	<b>A- to A+ -</b>		A- to A+	30.63%
Schedule 1 Canadian banks	<b>AA- to AAA -</b>		AA- to AAA	9.07%
Schedule 1 and 2 Canadian banks	<b>A- to A+ -</b>		A- to A+	52.98%
	-			100.00%

As at December 31, 2017 the Reserve fund balance was fully withdrawn.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

Liquidity Risk

Churchill Falls is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. Churchill Falls manages this risk by maintaining borrowing facilities, a minimum cash balance of \$23.0 million (2016 - \$22.0 million) and business interruption insurance. Short-term liquidity is provided through cash and cash equivalents on hand, funds from operations and a \$10.0 million (2016 - \$10.0 million) unsecured credit facility. Long-term liquidity risk is managed by maintenance of the reserve fund in accordance with the June 1999 shareholders' agreement and a dividend management policy that meets long-term liquidity requirements associated with Churchill Falls' capital expenditure program.

The following are the contractual maturities of Churchill Falls' financial liabilities, including principal and interest, as at December 31, 2017.

<i>(thousands of Canadian dollars)</i>	< 1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	37,453	-	-	-	37,453
Rental and royalty payable	6,357	-	-	-	6,357
	43,810	-	-	-	43,810

Market Risk

Churchill Falls is exposed to possible market price movements that could impact expected future cash flow and the carrying value of certain financial assets and liabilities.

*Interest Rates*

Changes in prevailing interest rates will impact the fair value of financial assets and liabilities classified as available for sale, which includes short-term investments, long-term investments and the reserve fund. Expected future cash flows from these assets and liabilities are also impacted in certain circumstances, such as when available for sale securities are sold prior to maturity.

*Foreign Currency and Commodity Exposure*

Churchill Falls does not hold any financial instrument whose value would vary due to changes in a commodity price. Cash flow exposure to commodity price and foreign exchange risk arises primarily through investing activities, most notably US dollar denominated capital expenditures, and regular procurement activities. The exposure, however, is considered immaterial.

**23. 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:

Related Party	Relationship
Hydro	65.8% shareholder of Churchill Falls
Hydro-Québec	34.2% shareholder of Churchill Falls
Nalcor	100% shareholder of Hydro
The Province	100% shareholder of Nalcor
Twin Falls	Jointly controlled by Churchill Falls
Labrador Transco	100% owned subsidiary of Nalcor
The Trust	Churchill Falls (Labrador) Corporation Trust was created by the Province with Churchill Falls as the beneficiary

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 FINANCIAL STATEMENTS**

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

<i>As at December 31 (thousands of Canadian dollars)</i>	Related party	2017	2016
<b>Trade and other receivables:</b>			
Power sales	Hydro-Québec	12,749	13,267
Power sales and other	Hydro	4,559	4,384
Engineering, technical, management and administrative services	Other	1	12
Property, plant and equipment and other	Labrador Transco	-	198
CF Trust receivable	The Trust	-	13
Engineering, technical, management and administrative services	Hydro-Québec	751	521
<b>Trade and other payables:</b>			
Other	Hydro-Québec	2,244	2,244
Engineering, technical, management and administrative services	Other	1,441	845
<b>Rental and royalty payable</b>	The Province	6,357	7,540

<i>For the year ended December 31 (thousands of Canadian dollars)</i>		2017	2016
<b>Power sales:</b>			
Long-term power contract	Hydro-Québec	57,940	65,923
Long-term power contracts	Hydro	43,390	44,164
<b>Guaranteed winter availability:</b>			
Guaranteed winter availability contract	Hydro-Québec	36,635	36,447
<b>Operating (recovery) costs:</b>			
Engineering, technical, management and administrative services	Hydro-Québec	(890)	(814)
Engineering, technical, management and administrative services	Hydro	(160)	1,841
Rental and royalty expense	The Province	6,357	7,374
Engineering, technical, management and administrative services	Other	3,137	2,736
<b>Net finance income:</b>			
Interest on related party payable/receivable	Hydro-Québec	-	231
<b>Other income:</b>			
Gain on disposal of property, plant and equipment	Hydro	259	-

- (a) Churchill Falls has entered into long-term power contracts with its shareholders for the sale of substantially all of the power produced by the generating plant. During 2017, revenue from Hydro-Québec and Hydro was \$94,575,000 (2016 - \$102,370,000) and \$43,390,000 (2016 - \$44,164,000) respectively.
- (b) For the year ended December 31, 2017, approximately \$2,977,000 (2016 - \$4,577,000) of operating costs were charged from Hydro and Nalcor for engineering, technical, management and administrative services.
- (c) Under the terms of the Lease and amendments thereto, 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, as defined in the Lease. At December 31, 2017, \$6,357,000 (2016 - \$7,540,000) was payable to the Province.
- (d) For the year ended December 31, 2017, net finance (income) expense on the related party payable/receivable was \$nil (2016 - \$231,000).
- (e) On February 3, 2010, the Province established the Trust with Churchill Falls as the beneficiary. The purpose of the Trust is to fund the external costs and expenses incurred in relation to the motion filed by Churchill Falls seeking a modification to the pricing terms of the 1969 Power Contract. To date, \$5,611,000 (2016 - \$5,339,000) has been received and \$nil (2016 - \$13,000) has been accrued as receivable from the Trust.

## CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

### NOTES TO FINANCIAL STATEMENTS

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- (f) As at December 31, 2017, Churchill Falls capacity penalty payable was \$419,000 (2016 - \$419,000). The capacity penalty relates to the supply of power to Hydro-Québec. Churchill Falls did not incur a capacity penalty in 2017 (2016 - \$nil).
- (g) During 2017, Churchill Falls received contributions of \$296,000 (2016 - \$198,000) related to property, plant and equipment from Labrador Transco.
- (h) In July 2017, a long-term sub-lease was signed by Churchill Falls and Hydro, transferring to Hydro its right, title and interest in the transmission line corridor running from the switchyard in Churchill Falls to the Wabush Terminal Station. The lease is effective July 1, 2017 and expires on May 16, 2060. The parties also signed a lease of identical term under which Churchill Falls leases equipment related to the transmission lines to Hydro. As a result, the transmission lines and related equipment have been transferred from Churchill Falls to Hydro during the year which resulted in a gain on disposal of \$259,000 (2016 - \$nil).

#### 23.1 Key Management Personnel

Compensation for key management personnel, which Churchill Falls defines as its executives who have the primary authority and responsibility in planning, directing and controlling the activities of the entity, includes compensation for senior executives. Salaries and employee benefits include base salaries, performance contract payments, vehicle allowances and contributions to employee benefit plans. Post-employment benefits include contributions to the Province's Public Service Pension Plan.

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2017</b>	2016
Salaries and employee benefits	<b>293</b>	259
Post-employment benefits	<b>32</b>	14
	<b>325</b>	273

#### 24. COMMITMENTS AND CONTINGENCIES

- (a) Outstanding commitments for capital projects total approximately \$20.6 million as at December 31, 2017 (December 31, 2016 - \$13.2 million).
- (b) Churchill Falls is subject to various legal proceedings and claims in the normal course of business. Although the outcome of such actions cannot be predicted with certainty, Management currently believes Churchill Falls' exposure to such claims and litigation, to the extent not covered by insurance policies or otherwise provided for, will not materially affect its financial position.
- (c) In August 2016, Churchill Falls received judgment from the Québec Court of Appeal upholding the 2014 Québec Superior Court ruling on the motion filed by Churchill Falls to address the inequities of the pricing terms of the 1969 Power Contract between Churchill Falls and Hydro-Québec. The Court ruled against Churchill Falls and the ruling requires Churchill Falls to pay court costs of \$1.4 million to Hydro-Québec. In April 2017, Churchill Falls was granted leave to appeal the case to the Supreme Court of Canada, the case was presented in December 2017 and a final ruling is anticipated some time in 2018.
- (d) In August 2016, Churchill Falls received judgment from the Québec Superior Court 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. The Court ruled in favour of Hydro-Québec and the ruling requires Churchill Falls to pay court costs of approximately \$0.4 million to Hydro-Québec. Churchill Falls has filed a Notice of Appeal with the Québec Court of Appeal. The date of the appeal hearing has not yet been set but it is anticipated that it will be scheduled for some time in 2018.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

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**25. CAPITAL MANAGEMENT**

Churchill Falls' objective when managing capital is to maintain its ability to continue as a going concern. Churchill Falls' requirements for capital in the future are expected to remain consistent, in line with the aging of the plant and related infrastructure and the execution of the long-term asset management plan. The focus of the capital management policy is to provide flexibility to ensure cash continues to be available to satisfy capital requirements. Managing the level of common dividend payments is a key aspect of ensuring the availability of funding to maintain the plant and infrastructure.

At present, the capital position of Churchill Falls is comprised entirely of equity capital (issued capital, shareholder contributions, reserves and retained earnings). The capital structure is adjusted through the amount of dividends paid to shareholders.

Churchill Falls maintains a \$10.0 million Canadian or US equivalent unsecured operating credit facility with its banker. Advances may take the form of a Prime Rate advance or the issuance of a Bankers' Acceptance (BA) with interest calculated at the Prime Rate or prevailing Government BA Fee. The facility provides coverage for overdrafts on Churchill Falls' bank accounts, with interest calculated at the Prime Rate. There were no amounts drawn on this facility as at December 31, 2017 (2016 - \$nil).

Churchill Falls has issued three irrevocable letters of credit totalling \$2.0 million (2016 - \$2.0 million), \$1.0 million of which does not impact the borrowing limit of the operating credit facility (2016 - \$1.0 million). The letters of credit ensure satisfactory management of its waste management system and compliance with a certificate of approval for the transportation of special and hazardous wastes, granted by the Provincial Department of Environment and Conservation.

**26. SUPPLEMENTARY CASH FLOW INFORMATION**

<i>For the year end December 31 (thousands of Canadian dollars)</i>	<b>2017</b>	<b>2016</b>
Trade and other receivables	<b>276</b>	3,396
Inventories	<b>(371)</b>	(479)
Prepayments	<b>(397)</b>	(131)
Trade and other payables	<b>11,384</b>	(1,772)
Rental and royalty payable	<b>(1,183)</b>	(381)
<b>Change in non-cash working capital balances</b>	<b>9,709</b>	633
Related to:		
Operating activities	<b>(652)</b>	3,974
Investing activities	<b>10,361</b>	(3,341)
	<b>9,709</b>	633

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**FINANCIAL STATEMENTS**  
**December 31, 2018**



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## Independent Auditor's Report

To the Shareholders of Churchill Falls (Labrador) Corporation Limited

### Opinion

We have audited the financial statements of Churchill Falls (Labrador) Corporation Limited (the "Company"), which comprise of financial position as at December 31, 2018, and the statements of profit and comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*Deloitte LLP*

Chartered Professional Accountants  
March 15, 2019

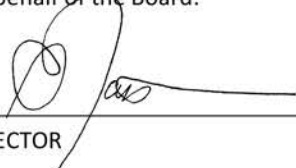
**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**STATEMENT OF FINANCIAL POSITION**

<i>As at December 31 (thousands of Canadian dollars)</i>	Notes	2018	2017
<b>ASSETS</b>			
Current assets			
Cash		45,192	46,154
Short-term investments	10	51,600	22,095
Trade and other receivables	5,22	25,028	20,117
Inventories	6	19,573	19,603
Prepayments		2,348	2,460
<b>Total current assets</b>		<b>143,741</b>	<b>110,429</b>
Non-current assets			
Property, plant and equipment	7	731,230	694,730
Intangible assets	8	543	699
Investment in joint venture	9	1,949	1,949
Long-term investments	10	-	51,600
Reserve fund	11	18,789	-
<b>Total assets</b>		<b>896,252</b>	<b>859,407</b>
<b>LIABILITIES AND EQUITY</b>			
Current liabilities			
Trade and other payables	12,22	32,652	37,453
Rental and royalty payable	22	6,674	6,357
Current portion of deferred contributions	13	738	748
<b>Total current liabilities</b>		<b>40,064</b>	<b>44,558</b>
Non-current liabilities			
Deferred contributions	13	9,776	10,504
Decommissioning liabilities	14	784	1,797
Employee future benefits	15	29,173	29,487
<b>Total liabilities</b>		<b>79,797</b>	<b>86,346</b>
Shareholders' equity			
Share capital	17	82,900	82,900
Contributed capital	17	8,195	6,160
Reserves	16	(4,182)	(5,821)
Retained earnings		729,542	689,822
<b>Total equity</b>		<b>816,455</b>	<b>773,061</b>
<b>Total liabilities and equity</b>		<b>896,252</b>	<b>859,407</b>

Commitments and contingencies (Note 23)

See accompanying notes

On behalf of the Board:

  
 \_\_\_\_\_  
 DIRECTOR

  
 \_\_\_\_\_  
 DIRECTOR

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

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	Notes	2018	2017
Power sales		<b>99,081</b>	101,330
Guaranteed winter availability		<b>36,870</b>	36,635
Other revenue	13	<b>738</b>	743
<b>Revenue</b>		<b>136,689</b>	138,708
Operating costs	18	<b>62,625</b>	66,674
Depreciation and amortization	7,8	<b>27,159</b>	25,131
Net finance income	19	<b>(1,844)</b>	(1,503)
Other expense	20	<b>1,035</b>	703
Share of profit of joint venture	9	-	(81)
<b>Expenses</b>		<b>88,975</b>	90,924
<b>Profit for the year</b>		<b>47,714</b>	47,784
Other comprehensive income (loss) for the year			
Net fair value gain (loss) on reserve fund	11,16	<b>63</b>	(161)
Amounts reclassified to loss	16	-	(70)
Actuarial gain (loss) on employee benefits liability	15,16	<b>1,576</b>	(1,316)
<b>Other comprehensive income (loss) for the year</b>		<b>1,639</b>	(1,547)
<b>Total comprehensive income for the year</b>		<b>49,353</b>	46,237

*See accompanying notes*

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

<i>(thousands of Canadian dollars)</i>	Notes	Share Capital	Contributed Capital	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
<b>Balance at January 1, 2018</b>		<b>82,900</b>	<b>6,160</b>	-	<b>(5,821)</b>	<b>689,822</b>	<b>773,061</b>
<b>Profit for the year</b>		-	-	-	-	<b>47,714</b>	<b>47,714</b>
<b>Other comprehensive income</b>							
<b>Net fair value gain on reserve fund</b>	11,16	-	-	<b>63</b>	-	-	<b>63</b>
<b>Amounts reclassified to profit or loss</b>	16	-	-	-	-	-	-
<b>Actuarial gain on employee benefits liability</b>	15,16	-	-	-	<b>1,576</b>	-	<b>1,576</b>
<b>Total comprehensive income for the year</b>		-	-	<b>63</b>	<b>1,576</b>	<b>47,714</b>	<b>49,353</b>
<b>Contributed capital</b>	17	-	<b>2,035</b>	-	-	-	<b>2,035</b>
<b>Preferred dividends</b>	17	-	-	-	-	<b>(7,994)</b>	<b>(7,994)</b>
<b>Balance at December 31, 2018</b>		<b>82,900</b>	<b>8,195</b>	<b>63</b>	<b>(4,245)</b>	<b>729,542</b>	<b>816,455</b>
Balance at January 1, 2017		82,900	5,550	231	(4,505)	648,748	732,924
Profit for the year		-	-	-	-	47,784	47,784
Other comprehensive (loss) income							
Net fair value loss on reserve fund	11,16	-	-	(161)	-	-	(161)
Amounts reclassified to profit or loss	16	-	-	(70)	-	-	(70)
Actuarial loss on employee benefits liability	15,16	-	-	-	(1,316)	-	(1,316)
<b>Total comprehensive (loss) income for the year</b>		-	-	(231)	(1,316)	47,784	46,237
<b>Contributed capital</b>	17	-	610	-	-	-	610
<b>Preferred dividends</b>	17	-	-	-	-	(6,710)	(6,710)
<b>Balance at December 31, 2017</b>		<b>82,900</b>	<b>6,160</b>	-	<b>(5,821)</b>	<b>689,822</b>	<b>773,061</b>

See accompanying notes

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

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	Notes	<b>2018</b>	2017
<b>Operating activities</b>			
Profit for the year		<b>47,714</b>	47,784
Adjustments to reconcile profit to cash provided from operating activities:			
Depreciation and amortization	7,8	<b>27,159</b>	25,131
Amortization of deferred contributions	13	<b>(738)</b>	(743)
Employee benefits	15	<b>1,262</b>	623
Loss on disposal of property, plant and equipment	13,20	<b>953</b>	1,026
Share of profit of joint venture	9	-	(81)
Decommissioning liabilities settled	14	<b>(8)</b>	(166)
Finance income	19	<b>(1,935)</b>	(1,614)
Finance expense	19	<b>91</b>	111
		<b>74,498</b>	72,071
Changes in non-cash working capital balances	25	<b>(5,682)</b>	(681)
Interest received		<b>2,030</b>	1,923
Interest paid		<b>(32)</b>	(40)
<b>Net cash provided from operating activities</b>		<b>70,814</b>	73,273
<b>Investing activities</b>			
Additions to property, plant and equipment	7	<b>(65,671)</b>	(69,999)
Additions to intangible assets	8	<b>(19)</b>	(173)
Increase in short-term investments	10	<b>(29,505)</b>	(22,095)
Decrease in long-term investments	10	<b>51,600</b>	-
(Increase) decrease in reserve fund	11	<b>(18,757)</b>	22,087
Changes in non-cash working capital balances	25	<b>(3,635)</b>	10,361
Proceeds on disposal of property, plant and equipment		<b>171</b>	3,138
<b>Net cash used in investing activities</b>		<b>(65,816)</b>	(56,681)
<b>Financing activities</b>			
Increase in contributed capital	17	<b>2,035</b>	610
Preferred dividends	17	<b>(7,994)</b>	(6,710)
<b>Net cash used in financing activities</b>		<b>(5,959)</b>	(6,100)
Net (decrease) increase in cash		<b>(962)</b>	10,492
Cash, beginning of year		<b>46,154</b>	35,662
Cash, end of year		<b>45,192</b>	46,154

*See accompanying notes*

# CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

## NOTES TO FINANCIAL STATEMENTS

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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 (MW). 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 (the Lease) 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 annual audited financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Churchill Falls has adopted accounting policies which are based on the IFRS applicable as at December 31, 2018, and include individual IFRS, International Accounting Standards (IAS), and interpretations made by the IFRS Interpretations Committee and the Standing Interpretations Committee.

These annual audited financial statements have been prepared on a historical cost basis, except for financial assets and financial liabilities which have been measured at fair value. The annual audited financial statements are presented in Canadian Dollars and all values rounded to the nearest thousand, except when otherwise noted. The annual audited financial statements were approved by Churchill Falls' Board of Directors on February 26, 2019.

#### 2.2 Cash and Short-term Investments

Cash consist of amounts on deposit with Schedule 1 Canadian Chartered banks, as well as highly liquid investments with maturities of three months or less. Investments with maturities greater than three months and less than twelve months are classified as short-term investments.

#### 2.3 Trade and Other Receivables

Trade and other receivables are classified as loans and receivables and are measured at amortized cost using the effective interest method.

#### 2.4 Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes expenditures incurred in acquiring the inventories and bringing them to their existing condition and location. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

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**2.5 Property, Plant and Equipment**

Items of property, plant and equipment are recognized using the cost model and thus are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes materials, labour, contracted services, professional fees and, for qualifying assets, borrowing costs capitalized in accordance with Churchill Falls' accounting policy outlined in Note 2.7. Costs capitalized with the related asset include all those costs directly attributable to bringing the asset into operation. When significant parts of property, plant and equipment are required to be replaced at intervals, Churchill Falls recognizes such parts as individual assets with specific useful lives and depreciation rates, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repairs and maintenance costs are recognized in the Statement of Profit and Comprehensive Income as incurred. Property, plant and equipment are not revalued for financial reporting purposes. Depreciation of these assets commences when the assets are ready for their intended use.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Hydroelectric generation plant	25 to 100 years
Transmission and terminals	30 to 65 years
Service facilities and other	5 to 45 years

The assets' residual values, useful lives and method of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate. The carrying value of property, plant and equipment is reviewed for impairment whenever events indicate that the carrying amounts of those assets may not be recoverable.

**2.6 Intangible Assets**

Assets that are expected to generate future economic benefit and are measurable, including computer software costs, costs of technical services, and studies are capitalized as intangible assets in accordance with IAS 38.

Intangible assets with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. The estimated useful life and amortization method are reviewed at the end of each year, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

Amortization is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Computer software	7 to 10 years
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**2.7 Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in the Statement of Profit and Comprehensive Income in the period in which they are incurred.

**2.8 Impairment of Non-Financial Assets**

At the end of each reporting period, Churchill Falls reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

## CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

### NOTES TO FINANCIAL STATEMENTS

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Where it is not possible to estimate the recoverable amount of an individual asset, Churchill Falls estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified. The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from non-financial assets.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the Statement of Profit and Comprehensive Income.

#### 2.9 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 33.33% 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.

#### 2.10 Employee Benefits Liability

(i) Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. Contributions by Churchill Falls to this Plan are recognized as an expense when employees have rendered service entitling them to the contributions. Liabilities associated with this Plan are held with the Province.

(ii) Other Benefits

Churchill Falls provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a retirement allowance.

The cost of providing these benefits is determined using the projected unit credit method, with actuarial valuations completed on an annual basis, based on service and Management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

Actuarial gains and losses on Churchill Falls' defined benefit obligation are recognized in reserves in the period in which they occur. Past service costs are recognized in operating costs as incurred.

The retirement benefit obligation recognized in the Statement of Financial Position represents the present value of the defined benefit obligation.

#### 2.11 Provisions

A provision is a liability of uncertain timing or amount. A provision is recognized if Churchill Falls has a present legal obligation or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. The provision is measured at the present value of the best estimate of the expenditures expected to be required to settle the obligation using a discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. Provisions are re-measured at each Statement of Financial Position date using the current discount rate.

**2.12 Decommissioning, Restoration and Environmental Liabilities**

Legal and constructive obligations associated with the retirement of property, plant and equipment are recorded as liabilities when those obligations are incurred and are measured as the present value of the expected costs to settle the liability, discounted at a rate specific to the liability. The liability is accreted up to the date the liability will be incurred with a corresponding charge to net finance (income) expense. The carrying amount of decommissioning, restoration and environmental liabilities is reviewed annually with changes in the estimates of timing or amount of cash flows added to or deducted from the cost of the related asset or expensed in the Statement of Profit and Comprehensive Income if the liability is short-term in nature.

**2.13 Revenue from Contracts with Customers**

Revenue from the sale of energy is recognized when Churchill Falls has transferred the significant risks and rewards of ownership to the buyer, recovery of the consideration is probable, and the amount of revenue can be reliably measured. Sales within the Province are primarily at rates approved by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB), whereas export sales and sales to certain major industrial customers are either at rates under the terms of the applicable contracts, or at market rates.

Churchill Falls provides energy to two primary customers: Hydro-Québec and Hydro.

A power contract with Hydro-Québec dated May 12, 1969 (the Power Contract) provides for the sale of a significant amount of the energy from Churchill Falls. The Power Contract had a 40-year term that expired August 31, 2016, and was followed by a Renewed Power Contract with Hydro-Québec for an additional 25 years beginning September 1, 2016. The rate was predetermined in the Power Contract and was 2.5426 mills per kWh. The rate during the term of the Renewed Power Contract is 2.0 mills per kWh.

Churchill Falls also recognizes revenue from Hydro-Québec under a Guaranteed Winter Availability Contract (GWAC) through 2041. The GWAC was signed with Hydro-Québec in 1998 and provides for the sale of 682 MW of guaranteed seasonal availability to Hydro-Québec during the months of November through March in each of the remaining years until 2041.

Under the Power Contract and Renewed Power Contract, Churchill Falls has the right to recall 300 MW (Recall Power). All of the Recall Power is sold by Churchill Falls to Hydro. Churchill Falls also provides 225 MW to Hydro.

Churchill Falls will continue to recognize revenue as customers are invoiced on a monthly basis using practical expedient IFRS 15.B16. Churchill Falls recognizes revenue at the amount to which it has the right to invoice, which corresponds directly to the value to the customer of Churchill Falls' performance to date.

**2.14 Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Lessor accounting

Amounts due from lessees under finance leases are recognized as receivables at the amount of Churchill Falls' net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on Churchill Falls' net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Lessee accounting

Assets held under finance leases are initially recognized as assets of Churchill Falls' at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation.

## **CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**

### **NOTES TO FINANCIAL STATEMENTS**

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Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with Churchill Falls' general policy on borrowing costs (Note 2.7). Contingent rental costs are recognized as operating costs in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### **2.15 Net Finance (Income) Expense**

For all financial instruments measured at amortized cost, interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

#### **2.16 Foreign Currencies**

Transactions in currencies other than Churchill Falls' functional currency (foreign currencies) are recognized using the exchange rate in effect at the date of the transaction, approximated by the prior month end close rate. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates of exchange in effect at the period end date. Foreign exchange gains and losses are included in the Statement of Profit and Comprehensive Income as other income (expense).

#### **2.17 Income Taxes**

Churchill Falls is exempt from paying income taxes under Section 149(1) (d.2) of the Income Tax Act.

#### **2.18 Financial Instruments**

Financial assets and financial liabilities are recognized in the Statement of Financial Position when Churchill Falls becomes a party to the contractual provisions of the instrument and are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss. All recognized financial assets and financial liabilities are subsequently measured in their entirety at either amortized cost or fair value, depending on the classification of the financial assets and financial liabilities.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

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Classification of Financial Instruments

Churchill Falls has classified each of its financial instruments into the following categories: financial assets at amortized cost, fair value through other comprehensive income (FVTOCI) and financial liabilities at amortized cost.

<u>Financial Instrument</u>	<u>Category</u>
Cash	Amortized cost
Short-term investments	Amortized cost
Trade and other receivables	Amortized cost
Long-term investments	Amortized cost
Reserve fund	FVTOCI
Trade and other payables	Amortized cost
Rental and royalty payable	Amortized cost

(i) Effective Interest Method

The effective interest method is a method of calculating the amortized cost of a debt instrument and allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses for debt financial assets, through the expected life of the debt instrument, or, where appropriate, a shorter period to the gross carrying amount on initial recognition.

Income or expense is recognized on an effective interest basis for debt instruments other than those financial assets and liabilities classified as at fair value through profit or loss (FVTPL).

Financial Assets

(ii) Financial Assets at Amortized Cost

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognized in profit or loss and is included in Net Finance (Income) Expense.

(iii) Financial Assets at FVTOCI

Financial assets classified at FVTOCI are initially measured at fair value plus transaction costs. Any change in the carrying amount of these assets other than foreign exchange gains and losses, impairment gains and losses and interest income are recognized in other comprehensive income accumulated in the fair value reserve. When these assets are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

## CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

### NOTES TO FINANCIAL STATEMENTS

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#### Financial Liabilities

##### (iv) Financial liabilities at amortized cost

Financial liabilities that do not meet the criteria of FVTPL or are not designated as such are subsequently measured at amortized cost using the effective interest method.

#### Derecognition of Financial Instruments

Churchill Falls derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If Churchill Falls neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, its retained interest in the asset and any associated liability for amounts it may have to pay is recognized. If Churchill Falls retains substantially all the risks and rewards of ownership of a transferred financial asset, it continues to recognize the financial asset and also recognizes the collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in an equity instrument which Churchill Falls has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the fair value reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Churchill Falls derecognizes financial liabilities when, and only when, its obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

#### Impairment of Financial Assets

Churchill Falls recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost or at FVTOCI. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

Churchill Falls always recognizes lifetime expected credit losses (ECL) for trade and other receivables. The expected credit losses on these financial assets are estimated based on Churchill Falls' historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. Churchill Falls also records 12-month ECL for those financial assets which have low credit risk and where the low credit risk exemption has been applied. The classes of financial assets that have been identified to have low credit risk are cash, short-term investments, long-term investments, and the reserve fund.

For all other financial instruments, Churchill Falls recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, Churchill Falls measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

## CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

### NOTES TO FINANCIAL STATEMENTS

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#### Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, Churchill Falls compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, Churchill Falls considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which Churchill Falls' debtors operate, obtained from economic expert reports, financial analysts, governmental bodies and other similar organizations, as well as consideration of various external sources of actual and forecasted economic information that relate to Churchill Falls' core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument,
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, Churchill Falls presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless Churchill Falls has reasonable and supportable information that demonstrates otherwise.

Churchill Falls assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if the financial instrument has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. Churchill Falls considers a financial asset to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definition.

Churchill Falls regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

#### Definition of default

Churchill Falls considers that an event default has occurred when there is a breach of financial covenants by a counterparty or information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including Churchill Falls, in full. Irrespective of the outcome of the above assessment, Churchill Falls considers that default has occurred when a financial asset is more than 90 days past due unless Churchill Falls has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

## CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

### NOTES TO FINANCIAL STATEMENTS

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#### Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about significant financial difficulty of the issuer or the borrower; a breach of contract, such as a default or past due event; the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider; it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or the disappearance of an active market for that financial asset because of financial difficulties.

#### Write-off policy

Churchill Falls writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery. Financial assets written off may still be subject to enforcement activities under Churchill Falls' recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

#### Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to Churchill Falls in accordance with the contract and all the cash flows that Churchill Falls expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17 Leases.

Where lifetime ECL is measured on a collective basis to cater to cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available, the financial instruments are grouped by the nature of the financial instruments; past due status; nature and size of industry of debtors; nature of collaterals for finance lease receivables; and external credit ratings where available. The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

If Churchill Falls has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, Churchill Falls measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

Churchill Falls recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

#### **2.19 Government Grants**

Government grants are recognized when there is reasonable assurance that Churchill Falls will comply with the associated conditions and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which Churchill Falls recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that Churchill Falls should purchase, construct or otherwise acquire non-current assets are recognized as deferred contributions in the Statement of Financial Position and transferred to the Statement of Profit and Comprehensive Income on a systematic and rational basis over the useful lives of the related assets.

## CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

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Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to Churchill Falls with no future related costs are recognized in the Statement of Profit and Comprehensive Income in the period in which they become receivable.

### 3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the annual audited financial statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ materially from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is reviewed if the revision affects only that period or in future periods.

#### 3.1 Use of Estimates

(i) Property, Plant and Equipment

Amounts recorded for depreciation are based on the useful lives of Churchill Falls' assets. The useful lives of property, plant and equipment are determined by independent specialists and reviewed annually by Churchill Falls. These useful lives are Management's best estimate of the service lives of these assets. Changes to these lives could materially affect the amount of depreciation recorded.

(ii) Intangible Assets

Amounts recorded for amortization are based on the useful lives of Churchill Falls' assets. These useful lives are Management's best estimate of the service lives of these assets. Changes to these lives could materially affect the amount of amortization recorded.

(iii) Decommissioning Liabilities

Churchill Falls recognizes a liability for the fair value of the future expenditures required to settle obligations associated with the retirement of property, plant and equipment. Decommissioning liabilities are recorded as a liability at fair value, with a corresponding increase to property, plant and equipment. Accretion of decommissioning liabilities is included in the Statement of Profit and Comprehensive Income through net finance (income) expense. Differences between the recorded decommissioning liabilities and the actual decommissioning costs incurred are recorded as a gain or loss in the settlement period.

(iv) Employee Benefits

Churchill Falls provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a severance payment upon retirement. The expected cost of providing these other employee benefits is accounted for on an accrual basis, and has been actuarially determined using the projected unit credit method prorated on service, and Management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

(v) Revenue

In the absence of a signed agreement with Hydro-Québec relating to the Annual Energy Base (AEB), Churchill Falls has an agreement with Hydro-Québec to continue to use the 2008 AEB on an interim basis until final judgment is obtained in the Declaratory Judgment case.

#### 3.2 Use of Judgment

(i) Asset Impairment and Reversals

Churchill Falls applies judgment in evaluating impairment and impairment reversal indicators based on various internal and external factors.

## CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

### NOTES TO FINANCIAL STATEMENTS

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The recoverable amount of a CGU or asset is determined based on the higher of fair value less costs of disposal and its value in use. Management uses judgment in selecting discount rates and considering the occurrence of future events when determining the recoverable amount. Changes in these factors will affect the recoverable amount of CGUs and assets, which may result in a material adjustment to their carrying value.

(ii) Property, Plant and Equipment

Churchill Falls' accounting policy relating to property, plant and equipment is described in Note 2.5. In applying this policy, judgment is used in determining whether certain costs are additions to the carrying amount of the property, plant and equipment as opposed to repairs and maintenance. If an asset has been developed, judgment is required to identify the point at which the asset is capable of being used as intended and to identify the directly attributable borrowing costs to be included in the carrying value of the development asset. Judgment is also used in determining the appropriate componentization structure for Churchill Falls' property, plant and equipment.

(iii) Determination of CGUs

Churchill Falls' accounting policy relating to impairment of non-financial assets is described in Note 2.8. In applying this policy, Churchill Falls groups assets into the smallest identifiable groups for which cash flows are largely independent of the cash flows from other assets or groups of assets. Judgment is used in determining the level at which cash flows are largely independent of other assets or groups of assets.

(iv) Discount Rates

Certain of Churchill Falls' financial liabilities are discounted using discount rates that are subject to Management's judgment.

(v) Consolidation of Joint Arrangements

Management exercises judgment when applying the criteria outlined in IFRS 11 to determine whether joint arrangements constitute joint ventures or joint operations. Management has determined that its interest in Twin Falls is considered a joint venture.

#### 4. CURRENT AND FUTURE CHANGES IN ACCOUNTING POLICIES

The following is a list of standards/interpretations that have been issued and are effective for accounting periods commencing January 1, 2018, January 1, 2019 or January 1, 2020, as specified.

*IFRS 9 - Financial Instruments*<sup>1</sup>

*IFRS 15 - Revenue from Contracts with Customers*<sup>1</sup>

*IFRS 16 - Leases*<sup>2</sup>

*IAS 19 - Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*<sup>2</sup>

*IAS 28 - Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)*<sup>2</sup>

*IAS 1 - Presentation of Financial Statements*<sup>3</sup> and *IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors*<sup>3</sup> (Amendments to IAS 1 and IAS 8)

<sup>1</sup>Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

<sup>2</sup>Effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

<sup>3</sup>Effective for annual periods beginning on or after January 1, 2020, with earlier application permitted.

##### 4.1 IFRS 9 - Financial Instruments

*IFRS 9 - Financial Instruments* (as revised in July 2014) became effective for accounting periods commencing on January 1, 2018. IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities, impairment for financial assets and general hedge accounting. Details of these new requirements as well as their impact on Churchill Falls' financial statements are described below.

## CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

### NOTES TO FINANCIAL STATEMENTS

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Churchill Falls has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

#### 4.1.1 Classification and measurement of financial assets

The date of initial application of IFRS 9 is January 1, 2018. Churchill Falls has applied the requirements of IFRS 9 to instruments that have not been derecognized as at January 1, 2018 and has not applied the requirements to instruments that have already been derecognized as at January 1, 2018. Comparative amounts in relation to instruments that have not been derecognized as at January 1, 2018 have been restated where appropriate.

All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Management reviewed and assessed Churchill Falls' existing financial assets as at January 1, 2018 based on the facts and circumstances that existed at that date, and concluded that the initial application of IFRS 9 has had the following impact on Churchill Falls' financial assets as regards their classification and measurement:

- financial assets classified as loans and receivables under IAS 39 that were measured at amortized cost continue to be measured at amortized cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding;
- with the exception of short-term investments and long-term investments, the financial assets that were classified as available-for-sale financial assets under IAS 39 have been classified as financial assets at FVTOCI as they are held within a business model whose objective is both to collect the contractual cash flows and they have contractual cash flows that are solely of payments of principal and interest on the principal amount outstanding. The changes in fair value on these continue to be accumulated in other comprehensive income until they are derecognized. The short-term investments and long-term investments have been classified as financial assets at amortized cost under IFRS 9 as they are held within a business model whose objective is to collect contractual cash flows, which consist solely of payments of principal and interest on the principal amount outstanding;
- financial assets that were measured at FVTPL under IAS 39 continue to be measured as such under IFRS 9.

Note 4.1.5 illustrates the change in classification of Churchill Falls' financial assets upon application of IFRS 9.

#### 4.1.2 Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires Churchill Falls to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets.

As at January 1, 2018, Management reviewed and assessed Churchill Falls' existing financial assets and amounts due from customers for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9 to determine the credit risk of the respective items at the date they were initially recognized, and compared that to the credit risk as at January 1, 2017 and January 1, 2018. The comparison made as at January 1, 2017, January 1, 2018 and December 31, 2018 determines whether 12-month expected credit losses should be recognized or lifetime expected credit loss should be recognized where credit risk has increased significantly for the respective financial instruments at that date. The change resulting from the application of the impairment model under IFRS 9 has not resulted in a material adjustment from what was previously recorded under IAS 39.

#### 4.1.3 Classification and measurement of financial liabilities

The application of IFRS 9 has had no impact on the classification and measurement of Churchill Falls' financial liabilities.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

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4.1.4 General hedge accounting

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an ‘economic relationship’. Retrospective assessment of hedge effectiveness is also no longer required. The application of the IFRS 9 hedge accounting requirements has had no impact on the results and financial position of Churchill Falls for the current and/or prior years.

4.1.5 Disclosures in relation to the initial application of IFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities under IFRS 9 and IAS 39 at January 1, 2018.

<u>Financial instrument</u>	<u>Category under IAS 39</u>	<u>Category under IFRS 9</u>
Cash	Loans and receivables	Amortized cost
Short-term investments	AFS financial assets	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Reserve fund	AFS financial assets	FVTOCI
Long-term investments	AFS financial assets	Amortized cost
Trade and other payables	Other financial liabilities	Amortized cost
Rental and royalty payable	Other financial liabilities	Amortized cost

**4.2 IFRS 15 - Revenue from Contracts with Customers**

*IFRS 15 - Revenue from Contracts with Customers* (as amended in April 2016) became effective for accounting periods commencing on January 1, 2018. Churchill Falls has applied IFRS 15 in accordance with the fully retrospective transitional approach using practical expedients for completed contracts (IFRS 15.C5(a)), modified contracts (IFRS 15.C5(c)) and allowing both non-disclosure of the amount of the transaction price allocated to the remaining performance obligations, and an explanation of when it expects to recognize that amount as revenue for all reporting periods presented before the date of initial application (IFRS 15.C5(d)). Subsequent to adopting IFRS 15 there were no material adjustments to the amounts reported in Churchill Falls’ financial statements.

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 - Revenue, IAS 11 - Construction Contracts and the related interpretations.

IFRS 15 covers only revenue arising from contracts with customers. Under IFRS 15, a customer of Churchill Falls is a party that has contracted with Churchill Falls to obtain goods or services that are an output of Churchill Falls’ ordinary activities in exchange for consideration. Unlike the scope of IAS 18, the recognition and measurement of interest income and dividend income from debt and equity investments are no longer within the scope of IFRS 15. Instead, they are within the scope of IFRS 9.

As mentioned above, IFRS 15 establishes a single model to deal with revenue from contracts with customers. Its core principle is that Churchill Falls should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which Churchill Falls expects to be entitled, in exchange for those goods or services.

#### **4.3 IFRS 16 - Leases**

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It will supersede the following lease standard and interpretations upon its effective date:

- IAS 17 – Leases;
- IFRIC 4 – Determining Whether an Arrangement contains a Lease;
- SIC-15 – Operating Leases – Incentives; and
- SIC-27 – Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer.

The standard introduces significant changes to lessee accounting: it removes the distinction between operating and finance leases under IAS 17 and requires a lessee to recognize a right-of-use asset and a lease liability at lease commencement for all leases, except for short-term leases and leases of low value assets.

In contrast to lessee accounting, the IFRS 16 lessor accounting requirements remain largely unchanged from IAS 17, which continue to require a lessor to classify a lease as either an operating lease or a finance lease.

IFRS 16 is effective for reporting periods beginning on or after January 1, 2019 with early application permitted (as long as IFRS 15 is also applied). Management has elected to adopt the standard as of the effective date.

A lessee can apply IFRS 16 either by a full retrospective approach or a modified retrospective approach. Management intends to apply the modified approach, as a result there is no requirement to restate comparative information, the cumulative effect of initially applying IFRS 16 will be presented as an adjustment to opening retained earnings. Management anticipates the application of IFRS 16 may have a material impact on the amounts reported and disclosures made in Churchill Falls' annual audited consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until Management concludes its detailed review.

#### **4.4 IAS 19 - Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)**

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of Churchill Falls.

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**4.5 IAS 28 - Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)**

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. The application of these amendments to IAS 23 will not have a material impact on Churchill Falls' annual audited financial statements.

**4.6 IAS 1 - Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (Amendments to IAS 1 and IAS 8)**

The International Accounting Standards Board issued amendments to IAS 1 and IAS 8 to align the definition of 'material' across the standards and to clarify certain aspects of the definition and to include the concept of 'obscuring information'.

The new definition states that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity".

The amendments are effective for annual periods beginning on or after January 1, 2020 with earlier application permitted. The amendments are intended to improve the understanding of the existing requirements rather than to significantly impact Churchill Falls' materiality judgements.

**5. TRADE AND OTHER RECEIVABLES**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2018</b>	2017
Due from related parties	<b>21,162</b>	18,060
Other receivables	<b>3,866</b>	2,057
	<b>25,028</b>	20,117

Other receivables include HST and other miscellaneous amounts.

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2018</b>	2017
0-60 days	<b>24,774</b>	19,194
60+ days	<b>254</b>	923
	<b>25,028</b>	20,117

**6. INVENTORIES**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2018</b>	2017
Materials and other	<b>16,725</b>	16,794
Construction aggregates	<b>2,701</b>	2,701
Fuel	<b>147</b>	108
	<b>19,573</b>	19,603

The cost of inventories recognized as an expense during the year is \$3.9 million (2017 - \$2.7 million) and is included in operating costs in the Statement of Profit and Comprehensive Income.

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**7. PROPERTY, PLANT AND EQUIPMENT**

<i>(thousands of Canadian dollars)</i>	Hydroelectric Generation Plant	Transmission and Terminals	Service Facilities and Other	Construction in Progress	Total
<b>Cost</b>					
Balance at January 1, 2017	800,805	271,887	207,556	16,509	1,296,757
Additions	-	333	-	69,666	69,999
Decommissioning liabilities and revisions	-	(78)	-	-	(78)
Disposals	(1,883)	(8,474)	(3,705)	-	(14,062)
Transfers	25,932	21,852	13,666	(61,450)	-
<b>Balance at December 31, 2017</b>	<b>824,854</b>	<b>285,520</b>	<b>217,517</b>	<b>24,725</b>	<b>1,352,616</b>
<b>Additions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>65,671</b>	<b>65,671</b>
<b>Decommissioning liabilities and revisions</b>	<b>-</b>	<b>(1,063)</b>	<b>-</b>	<b>-</b>	<b>(1,063)</b>
<b>Other adjustments</b>	<b>(213)</b>	<b>206</b>	<b>25</b>	<b>-</b>	<b>18</b>
<b>Disposals</b>	<b>(4,834)</b>	<b>(1,628)</b>	<b>(1,799)</b>	<b>-</b>	<b>(8,261)</b>
<b>Transfers</b>	<b>43,588</b>	<b>15,299</b>	<b>16,251</b>	<b>(75,138)</b>	<b>-</b>
<b>Balance at December 31, 2018</b>	<b>863,395</b>	<b>298,334</b>	<b>231,994</b>	<b>15,258</b>	<b>1,408,981</b>
<b>Depreciation</b>					
Balance at January 1, 2017	421,511	133,765	87,283	-	642,559
Depreciation	11,411	4,795	8,770	-	24,976
Disposals	(1,306)	(5,919)	(2,424)	-	(9,649)
<b>Balance at December 31, 2017</b>	<b>431,616</b>	<b>132,641</b>	<b>93,629</b>	<b>-</b>	<b>657,886</b>
<b>Depreciation</b>	<b>12,147</b>	<b>5,346</b>	<b>9,491</b>	<b>-</b>	<b>26,984</b>
<b>Other adjustments</b>	<b>(5)</b>	<b>15</b>	<b>8</b>	<b>-</b>	<b>18</b>
<b>Disposals</b>	<b>(4,341)</b>	<b>(1,052)</b>	<b>(1,744)</b>	<b>-</b>	<b>(7,137)</b>
<b>Balance at December 31, 2018</b>	<b>439,417</b>	<b>136,950</b>	<b>101,384</b>	<b>-</b>	<b>677,751</b>
<b>Carrying value</b>					
Balance at January 1, 2017	379,294	138,122	120,273	16,509	654,198
Balance at December 31, 2017	393,238	152,879	123,888	24,725	694,730
<b>Balance at December 31, 2018</b>	<b>423,978</b>	<b>161,384</b>	<b>130,610</b>	<b>15,258</b>	<b>731,230</b>

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**NOTES TO FINANCIAL STATEMENTS**

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**8. INTANGIBLE ASSETS**

<i>(thousands of Canadian dollars)</i>	Computer Software
Cost	
Balance at January 1, 2017	1,399
Additions	173
Balance at December 31, 2017	1,572
<b>Additions</b>	<b>19</b>
<b>Balance at December 31, 2018</b>	<b>1,591</b>
Amortization	
Balance at January 1, 2017	718
Amortization	155
Balance at December 31, 2017	873
<b>Amortization</b>	<b>175</b>
<b>Balance at December 31, 2018</b>	<b>1,048</b>
Carrying value	
Balance at January 1, 2017	681
Balance at December 31, 2017	699
<b>Balance at December 31, 2018</b>	<b>543</b>

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**9. INVESTMENT IN JOINT VENTURE**

Churchill Falls holds a 33.33% equity shareholding and majority voting power in Twin Falls, subject to the provisions of the Participation Agreement. Twin Falls is incorporated under the laws of Canada and developed a 225 MW hydroelectric generating plant on the Unknown River in Labrador. The plant has been inoperative since 1974. There has been no change in Churchill Falls' ownership or voting interest during the year.

The following is summarized financial information with respect to Twin Falls:

<i>(thousands of Canadian dollars)</i>	<b>2018</b>	2017
Current assets	<b>5,890</b>	5,927
Non-current assets	-	16
Current liabilities	<b>43</b>	91
Non-current liabilities	-	1
<b>Net assets</b>	<b>5,847</b>	5,851
Churchill Falls' share of net assets	<b>1,949</b>	1,949
Total revenue	<b>93</b>	54
Total (loss) profit	<b>(4)</b>	243
Churchill Falls' share of profit	-	81

The above amounts of assets and liabilities include the following:

Cash and cash equivalents	<b>384</b>	861
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**10. INVESTMENTS**

<i>As at December 31 (thousands of Canadian dollars)</i>	Year of Maturity	<b>2018</b>	2017
\$28.0 million Redeemable GIC, interest at 1.40%	2019	<b>28,000</b>	28,000
\$23.6 million Redeemable GIC, interest at 1.46%	2019	<b>23,600</b>	23,600
\$22.2 million Short-Term Bearer Deposit Note, interest at 1.52%	2018	-	22,095
<b>Total investments, end of year</b>		<b>51,600</b>	73,695
<b>Less: redemptions to be received within the next year</b>		<b>(51,600)</b>	(22,095)
<b>Long-term investments, end of year</b>		-	51,600

**11. RESERVE FUND**

In 2007 Churchill Falls commenced the creation of a \$75.0 million segregated reserve fund pursuant to the terms of the Shareholders' Agreement to contribute towards the funding of capital expenditures related to Churchill Falls' existing facilities and their replacement. Churchill Falls invested \$17.0 million in each of 2007, 2008 and 2009 and \$8.0 million in each of 2010, 2011 and 2012. In December 2018, \$18.8 was invested (2017 - \$22.5 million withdrawn) into the fund as part of the Shareholders' Agreement to reestablish the \$75.0 million withdrawn in recent years.

This fund must remain in place until the end of the Shareholders' Agreement in 2041. Any amounts removed to fund capital expenditures must be replaced. Reserve fund holdings consist of securities issued by the Government of Canada, various provinces of Canada and Schedule 1 and 2 Canadian Chartered Banks.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
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The reserve fund consists of the following:

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2018</b>	2017
Reserve fund, beginning of year	-	22,598
Principal contributions (withdrawals)	<b>18,750</b>	(22,480)
Earnings (withdrawn) invested	<b>(24)</b>	43
Net discount	-	70
Mark-to-market adjustment	<b>63</b>	(231)
Reserve fund, end of year	<b>18,789</b>	-

Reserve fund contributions for the next four years are as follows:

<i>(thousands of Canadian dollars)</i>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Reserve fund contributions	18,750	18,750	9,375	9,375

**12. TRADE AND OTHER PAYABLES**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2018</b>	2017
Trade payables and accruals	<b>24,718</b>	29,698
Payables due to related parties	<b>1,891</b>	3,685
Other payables	<b>6,043</b>	4,070
	<b>32,652</b>	37,453

Other payables include HST and other miscellaneous amounts.

**13. DEFERRED CONTRIBUTIONS**

Churchill Falls has received contributions from Transport Canada related to the airport. These contributions are deferred and amortized to other revenue over the life of the related item of property, plant and equipment.

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2018</b>	2017
Deferred contributions, beginning of year	<b>11,252</b>	12,244
Disposals	-	(249)
Amortization	<b>(738)</b>	(743)
Deferred contributions, end of year	<b>10,514</b>	11,252
Less: current portion	<b>(738)</b>	(748)
	<b>9,776</b>	10,504

**14. DECOMMISSIONING LIABILITIES**

Churchill Falls has recognized liabilities associated with the disposal of Polychlorinated Biphenyls (PCB).

The reconciliation of the beginning and ending carrying amounts of decommissioning liabilities as at December 31, 2018 and December 31, 2017 are as follows:

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<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2018</b>	2017
Decommissioning liabilities, beginning of year	<b>1,797</b>	1,970
Accretion	<b>58</b>	71
Liabilities settled	<b>(8)</b>	(166)
Revisions	<b>(1,063)</b>	(78)
Decommissioning liabilities, end of year	<b>784</b>	1,797

The total estimated undiscounted cash flows required to settle the PCB obligations at December 31, 2018 are \$0.9 million (2017 - \$2.1 million). The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at the Company's credit adjusted risk free rate of 2.9% (2017 - 3.2%).

**15. EMPLOYEE FUTURE BENEFITS**

**15.1 Pension Plan**

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions for the year ended December 31, 2018 of \$2,435,000 (2017 - \$2,539,000) are expensed as incurred.

**15.2 Other Benefits**

Churchill Falls provides group life insurance and healthcare benefits on a cost shared basis to retired employees, and in certain cases, their surviving spouses, in addition to a retirement allowance. For the year ended December 31, 2018, cash payments to beneficiaries for its unfunded other employee future benefits were \$875,000 (December 31, 2017 - \$1,093,000). An actuarial valuation was performed as at December 31, 2018.

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2018</b>	2017
Accrued benefit obligation		
Balance, beginning of year	<b>29,487</b>	27,548
Current service cost	<b>1,378</b>	1,208
Interest cost	<b>1,081</b>	1,088
Transfers (a)	<b>(322)</b>	(580)
Benefits paid	<b>(875)</b>	(1,093)
Actuarial (gain) loss	<b>(1,576)</b>	1,316
Balance, end of year	<b>29,173</b>	29,487

(a) When an employee transfers to a related party, the associated accrued benefit obligation is allocated to each respective party based on years of service.

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2018</b>	2017
Component of benefit cost		
Current service cost	<b>1,378</b>	1,208
Interest cost	<b>1,081</b>	1,088
Total benefit expense for the year	<b>2,459</b>	2,296

The significant actuarial assumptions used in measuring the accrued benefit obligations and benefit expenses are as follows:

	<b>2018</b>	2017
Discount rate - benefit cost	<b>3.55%</b>	3.90%
Discount rate - accrued benefit obligation	<b>3.90%</b>	3.55%
Rate of compensation increase	<b>3.50%</b>	3.50%

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Assumed healthcare trend rates:

	<b>2018</b>	2017
Initial healthcare expense trend rate	<b>5.85%</b>	6.00%
Cost trend decline to	<b>4.50%</b>	4.50%
Year that rate reaches the rate it is assumed to remain at	<b>2028</b>	2028

A 1% change in assumed healthcare trend rates would have had the following effects:

<i>Increase (thousands of Canadian dollars)</i>	<b>2018</b>	2017
Current service and interest cost	<b>530</b>	530
Accrued benefit obligation	<b>4,798</b>	5,057
<i>Decrease (thousands of Canadian dollars)</i>	<b>2018</b>	2017
Current service and interest cost	<b>(380)</b>	(380)
Accrued benefit obligation	<b>(3,664)</b>	(3,823)

**16. ACCUMULATED OTHER COMPREHENSIVE INCOME**

The components of, and changes in, accumulated other comprehensive (loss) income are as follows:

*Items that will not be reclassified to profit or loss:*

<i>(thousands of Canadian dollars)</i>	<b>2018</b>	2017
Employee benefits liability		
Balance at January 1	<b>(5,821)</b>	(4,505)
Net actuarial gain (loss) on defined benefit plan	<b>1,576</b>	(1,316)
<b>Balance at December 31</b>	<b>(4,245)</b>	(5,821)

*Items that may or have been reclassified to profit or loss:*

<i>(thousands of Canadian dollars)</i>	<b>2018</b>	2017
Reserve fund		
Balance at January 1	-	231
Net fair value gain (loss)	<b>63</b>	(161)
Amounts reclassified to profit	-	(70)
<b>Balance at December 31</b>	<b>63</b>	-

**17. SHAREHOLDERS' EQUITY**

**17.1 Share Capital**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2018</b>	2017
Common shares without nominal or par value		
Authorized - unlimited		
Issued, fully paid and outstanding - 8,759,999	<b>82,900</b>	82,900
Preferred shares without nominal or par value		
Authorized - 3		
Issued, fully paid and outstanding - 3	-	-

Additional shares cannot be issued without the approval of a majority of the directors on the Board of Directors, including at least one director nominated by Hydro and one director nominated by Hydro-Québec.

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The preferred shares are divided into three classes, one of each has been issued, and the dividends thereon, which rank ahead of dividends on common shares, are as follows:

The Class A Cumulative Preferred Shareholder is entitled to dividend payments calculated as the amount equal to the income taxes which would have been received by the Province had Churchill Falls continued to be a taxable corporation.

The Class B and Class C Redeemable Cumulative Preferred Shareholders are no longer entitled to receive dividends.

**17.2 Contributed Capital**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2018</b>	2017
Twin Falls Power Corporation Limited (Twin Falls)	55	55
Labrador Transmission Corporation (Labrador Transco)	494	494
Churchill Falls (Labrador) Corporation Trust (the Trust)	7,646	5,611
<b>Total contributed capital</b>	<b>8,195</b>	6,160

During 2018, Twin Falls contributed \$nil related to property, plant and equipment (December 31, 2017 - \$55,000), Labrador Transco contributed \$nil (December 31, 2017 - \$296,000) related to property, plant and equipment and the Trust contributed \$2,035,000 (December 31, 2017 - \$259,000).

**17.3 Dividends Paid and Proposed**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2018</b>	2017
Declared during the year		
Final preferred dividend for prior year	1,268	515
Interim preferred dividend for current year	6,726	6,195
	<b>7,994</b>	6,710
Proposed for approval, not recognized as payable at December 31		
Final dividend underpayment for current year	608	1,268

During 2018, Churchill Falls did not pay any common dividends (2017 - \$nil).

**18. OPERATING COSTS**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2018</b>	2017
Salaries and benefits expense	37,324	39,497
Maintenance and materials	10,100	11,755
Rental and royalty expense	6,679	6,357
Professional services	3,279	3,683
Insurance	3,170	3,155
Other operating costs	2,073	2,227
	<b>62,625</b>	66,674

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

**19. NET FINANCE INCOME**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2018</b>	2017
Finance income		
Interest on reserve fund	<b>13</b>	406
Interest on investments	<b>841</b>	977
Other interest income	<b>1,081</b>	231
	<b>1,935</b>	1,614
Finance expense		
Accretion of decommissioning liability	<b>58</b>	71
Other interest expense	<b>33</b>	40
	<b>91</b>	111
Net finance income	<b>1,844</b>	1,503

**20. OTHER EXPENSE**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2018</b>	2017
Realized foreign exchange gain	<b>(2)</b>	(196)
Unrealized foreign exchange loss	<b>10</b>	141
Gain on sale of reserve fund assets	-	(51)
Loss on disposal of property, plant and equipment	<b>953</b>	1,026
Other asset disposal costs	<b>74</b>	6
Insurance proceeds	-	(223)
Other expense	<b>1,035</b>	703

**21. FINANCIAL INSTRUMENTS**

**21.1 Fair Value**

The estimated fair values of financial instruments as at December 31, 2018 and December 31, 2017 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).

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

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 fair value measurement during the years ended December 31, 2018 and December 31, 2017.

As at December 31, 2018 and December 31, 2017, Churchill Falls did not have any Level 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		December 31, 2018		December 31, 2017	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Reserve fund	2	18,789	18,789	-	-

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

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.

**21.2 Risk Management**

Churchill Falls is exposed to certain credit, liquidity and market price risks through its operating, financing and investing activities. Financial risk is managed in accordance with a Board approved policy, which outlines the objectives and strategies for the management of financial risk, including the use of derivative contracts. Permitted financial risk management strategies are aimed at minimizing the volatility of Churchill Falls' expected future cash flows.

Credit Risk

Expected future cash flows are exposed to credit risk through operating activities, primarily due to the potential for non-performance by customers, and through financing activities, based on the risk of non-performance by counterparties to financial instruments. The degree of exposure on cash, short-term investments, accounts receivable, long-term investments, the reserve fund and energy sales depends on the financial capacity and stability of those customers and counterparties. The maximum exposure to credit risk on these financial instruments is represented by their carrying values on the Statement of Financial Position at the reporting date.

Credit exposure on energy sales is limited, as Churchill Falls' two main customers Hydro and Hydro Québec are investment grade utilities. As at December 31, 2018, there was no allowance for doubtful accounts included in trade and other receivables (2017 - \$nil).

Credit risk on cash and short-term investments is limited, as Churchill Falls' cash deposits are held by a Schedule 1 Canadian Chartered bank with a rating of A+ (Standard and Poor's). Credit risk on long-term investments is limited, as Churchill Falls' holdings are held by a Schedule 1 Canadian Chartered bank with a rating of A+ (Standard and Poor's).

Credit exposure on the reserve fund is mitigated by adhering to an investment policy which restricts the holdings to long-term debt instruments issued or guaranteed by the Government of Canada or any province of Canada. Investment in the long-term debt instruments of Canadian banks are also permitted, provided the bank is rated A or higher by Standard and Poor's. With the exception of Government of Canada, holdings of any one issuer are limited to 10% of the total principal amount of the portfolio. The following credit risk table provides information on credit exposures according to issuer type and credit rating for the reserve fund:

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

	Issuer Credit Rating	Fair Value of Portfolio (%)	Issuer Credit Rating	Fair Value of Portfolio (%)
	2018		2017	
Provincial Governments	A- to A+	38.57%	A- to A+	-
Provincially owned utilities	A- to A+	8.91%	A- to A+	-
Schedule 1 Canadian banks	AA- to AAA-	14.15%	AA- to AAA	-
Schedule 1 Canadian banks	A- to A+	38.37%	A- to A+	-
		100%		-

Liquidity Risk

Churchill Falls is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. Churchill Falls manages this risk by maintaining borrowing facilities, a minimum cash balance of \$22.5 million (2017 - \$22.0 million) and business interruption insurance. Short-term liquidity is provided through cash on hand, funds from operations and a \$10.0 million (2017 - \$10.0 million) unsecured credit facility. Long-term liquidity risk is managed by maintenance of the reserve fund in accordance with the June 1999 shareholders' agreement and a dividend management policy that meets long-term liquidity requirements associated with Churchill Falls' capital expenditure program.

The following are the contractual maturities of Churchill Falls' financial liabilities, including principal and interest, as at December 31, 2017.

<i>(thousands of Canadian dollars)</i>	< 1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	32,652	-	-	-	32,652
Rental and royalty payable	6,674	-	-	-	6,674
	39,326	-	-	-	39,326

Market Risk

Churchill Falls is exposed to possible market price movements that could impact expected future cash flow and the carrying value of certain financial assets and liabilities.

*Interest Rates*

Changes in prevailing interest rates will impact the fair value of financial assets and liabilities classified as FVTOCI, which includes the reserve fund. Expected future cash flows from these assets and liabilities are also impacted in certain circumstances, such as when reserve fund securities are sold prior to maturity.

	Other Comprehensive Income	
	0.5% Decrease	0.5% Increase
<i>(thousands of Canadian dollars)</i>		
Interest on reserve fund	342	(334)

*Foreign Currency and Commodity Exposure*

Churchill Falls does not hold any financial instrument whose value would vary due to changes in a commodity price. Cash flow exposure to commodity price and foreign exchange risk arises primarily through investing activities, most notably US dollar denominated capital expenditures, and regular procurement activities. The exposure, however, is considered immaterial.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

**22. 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:

Related Party	Relationship
Hydro	65.8% shareholder of Churchill Falls
Hydro-Québec	34.2% shareholder of Churchill Falls
Nalcor	100% shareholder of Hydro
The Province	100% shareholder of Nalcor
Twin Falls	Jointly controlled by Churchill Falls
Labrador Transco	100% owned subsidiary of Nalcor
The Trust	Churchill Falls (Labrador) Corporation Trust was created by the Province with Churchill Falls as the beneficiary

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.

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

<i>As at December 31 (thousands of Canadian dollars)</i>	Related party	<b>2018</b>	2017
<b>Trade and other receivables:</b>			
Power sales	Hydro-Québec	<b>13,123</b>	12,749
Power sales and other	Hydro	<b>4,314</b>	4,559
Engineering, technical, management and administrative services	Other	-	1
CF Trust receivable	The Trust	<b>1,848</b>	-
Engineering, technical, management and administrative services	Hydro-Québec	<b>1,877</b>	751
<b>Trade and other payables:</b>			
Other	Hydro-Québec	<b>844</b>	2,244
Engineering, technical, management and administrative services	Other	<b>1,047</b>	1,441
<b>Rental and royalty payable</b>	The Province	<b>6,674</b>	6,357
<i>For the year ended December 31 (thousands of Canadian dollars)</i>		<b>2018</b>	2017
<b>Power sales:</b>			
Long-term power contract	Hydro-Québec	<b>57,919</b>	57,940
Long-term power contracts	Hydro	<b>41,162</b>	43,390
<b>Guaranteed winter availability:</b>			
Guaranteed winter availability contract	Hydro-Québec	<b>36,870</b>	36,635
<b>Operating (recovery) costs:</b>			
Engineering, technical, management and administrative services	Hydro-Québec	<b>(576)</b>	(890)
Engineering, technical, management and administrative services	Hydro	<b>100</b>	(160)
Rental and royalty expense	The Province	<b>6,679</b>	6,357
Engineering, technical, management and administrative services	Other	<b>3,516</b>	3,137
Short-term property rental	Labrador Transco	<b>220</b>	-
<b>Other income:</b>			
Gain on disposal of property, plant and equipment	Hydro	-	259
Gain on disposal of property, plant and equipment	Other	<b>112</b>	-

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

- (a) Churchill Falls has entered into long-term power contracts with its shareholders for the sale of substantially all of the power produced by the generating plant. During 2018, revenue from Hydro-Québec and Hydro was \$94,789,000 (2017 - \$94,575,000) and \$41,162,000 (2017 - \$43,390,000) respectively.
- (b) For the year ended December 31, 2018, approximately \$3,616,000 (2017 - \$2,977,000) of operating costs were charged from Hydro and Nalcor for engineering, technical, management and administrative services.
- (c) Under the terms of the Lease and amendments thereto, 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, as defined in the Lease. At December 31, 2018, \$6,674,000 (2017 - \$6,357,000) was payable to the Province.
- (d) On February 3, 2010, the Province established the Trust with Churchill Falls as the beneficiary. The purpose of the Trust is to fund the external costs and expenses incurred in relation to the motion filed by Churchill Falls seeking a modification to the pricing terms of the 1969 Power Contract. To date, \$5,798,000 (2017 - \$5,611,000) has been received and \$1,848,000 (2017 - \$nil) has been accrued as receivable from the Trust.
- (e) As at December 31, 2018, Churchill Falls capacity penalty payable was \$419,000 (2017 - \$419,000). The capacity penalty relates to the supply of power to Hydro-Québec. Churchill Falls did not incur a capacity penalty in 2018 (2017 - \$nil).
- (f) During 2018, Churchill Falls received contributions of \$nil (2017 - \$296,000) related to property, plant and equipment from Labrador Transco.
- (g) In July 2017, a long-term sub-lease was signed by Churchill Falls and Hydro, transferring to Hydro its right, title and interest in the transmission line corridor running from the switchyard in Churchill Falls to the Wabush Terminal Station. The lease is effective July 1, 2017 and expires on May 16, 2060. The parties also signed a lease of identical term under which Churchill Falls leases equipment related to the transmission lines to Hydro. As a result, the transmission lines and related equipment have been transferred from Churchill Falls to Hydro during the year which resulted in a gain on disposal of \$nil (2017 - \$259,000).

**22.1 Key Management Personnel**

Compensation for key management personnel, which Churchill Falls defines as its executives who have the primary authority and responsibility in planning, directing and controlling the activities of the entity, includes compensation for senior executives. Salaries and employee benefits include base salaries, performance contract payments, vehicle allowances and contributions to employee benefit plans. Post-employment benefits include contributions to the Province's Public Service Pension Plan.

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2018</b>	2017
Salaries and employee benefits	<b>285</b>	293
Post-employment benefits	<b>29</b>	32
	<b>314</b>	325

**23. COMMITMENTS AND CONTINGENCIES**

- (a) Outstanding commitments for capital projects total approximately \$20.1 million as at December 31, 2018 (December 31, 2017 - \$20.6 million).
- (b) Churchill Falls is subject to various legal proceedings and claims in the normal course of business. Although the outcome of such actions cannot be predicted with certainty, Management currently believes Churchill Falls' exposure to such claims and litigation, to the extent not covered by insurance policies or otherwise provided for, will not materially affect its financial position.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

(c) In August 2016, Churchill Falls received judgment from the Québec Superior Court 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. The Court ruled in favour of Hydro-Québec and the ruling requires Churchill Falls to pay court costs of approximately \$0.4 million to Hydro-Québec. Churchill Falls filed a Notice of Appeal with the Québec Court of Appeal and the appeal hearing was held on December 4, 2018. The decision of the Court of Appeal is expected to be issued in 2019.

**24. CAPITAL MANAGEMENT**

Churchill Falls' objective when managing capital is to maintain its ability to continue as a going concern. Churchill Falls' requirements for capital in the future are expected to remain consistent, in line with the aging of the plant and related infrastructure and the execution of the long-term asset management plan. The focus of the capital management policy is to provide flexibility to ensure cash continues to be available to satisfy capital requirements. Managing the level of common dividend payments is a key aspect of ensuring the availability of funding to maintain the plant and infrastructure.

At present, the capital position of Churchill Falls is comprised entirely of equity capital (issued capital, shareholder contributions, reserves and retained earnings). The capital structure is adjusted through the amount of dividends paid to shareholders.

Churchill Falls maintains a \$10.0 million Canadian or US equivalent unsecured operating credit facility with its banker. Advances may take the form of a Prime Rate advance or the issuance of a Bankers' Acceptance (BA) with interest calculated at the Prime Rate or prevailing Government BA Fee. The facility provides coverage for overdrafts on Churchill Falls' bank accounts, with interest calculated at the Prime Rate. There were no amounts drawn on this facility as at December 31, 2018 (2017 - \$nil).

Churchill Falls has issued three irrevocable letters of credit totalling \$2.0 million (2017 - \$2.0 million), \$1.0 million of which does not impact the borrowing limit of the operating credit facility (2017 - \$1.0 million). The letters of credit ensure satisfactory management of its waste management system and compliance with a certificate of approval for the transportation of special and hazardous wastes, granted by the Provincial Department of Environment and Conservation.

**25. SUPPLEMENTARY CASH FLOW INFORMATION**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2018</b>	2017
Trade and other receivables	<b>(4,975)</b>	247
Inventories	<b>30</b>	(371)
Prepayments	<b>112</b>	(397)
Trade and other payables	<b>(4,801)</b>	11,384
Rental and royalty payable	<b>317</b>	(1,183)
Change in non-cash working capital balances	<b>(9,317)</b>	9,680
Related to:		
Operating activities	<b>(5,682)</b>	(681)
Investing activities	<b>(3,635)</b>	10,361
	<b>(9,317)</b>	9,680

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**FINANCIAL STATEMENTS**  
**December 31, 2019**

## Independent Auditor's Report

To the Shareholders of Churchill Falls (Labrador) Corporation Limited

### Opinion

We have audited the financial statements of Churchill Falls (Labrador) Corporation Limited (the "Company"), which comprise of financial position as at December 31, 2019, and the statements of profit and comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*Deloitte LLP*

Chartered Professional Accountants  
February 28, 2020

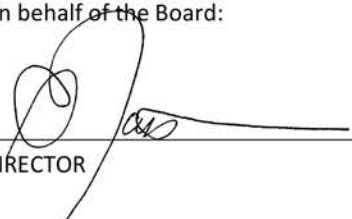
**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**STATEMENT OF FINANCIAL POSITION**

<i>As at (thousands of Canadian dollars)</i>	Notes	2019	2018
<b>ASSETS</b>			
Current assets			
Cash		89,006	45,192
Restricted cash		190	-
Short-term investments		-	51,600
Trade and other receivables	5	26,143	25,028
Inventories	6	16,914	19,573
Prepayments		2,578	2,348
<b>Total current assets</b>		<b>134,831</b>	<b>143,741</b>
Non-current assets			
Property, plant and equipment	7	770,794	731,230
Intangible assets	8	581	543
Investment in joint venture	9	2,023	1,949
Reserve fund	10	38,061	18,789
<b>Total assets</b>		<b>946,290</b>	<b>896,252</b>
<b>LIABILITIES AND EQUITY</b>			
Current liabilities			
Trade and other payables	11	36,265	32,652
Rental and royalty payable	20	6,883	6,674
Current portion of deferred contributions	12	690	738
<b>Total current liabilities</b>		<b>43,838</b>	<b>40,064</b>
Non-current liabilities			
Deferred contributions	12	9,186	9,776
Decommissioning liabilities	13	1,285	784
Employee future benefits	14	34,684	29,173
<b>Total liabilities</b>		<b>88,993</b>	<b>79,797</b>
Shareholders' equity			
Share capital	15	82,900	82,900
Contributed capital	15	8,195	8,195
Reserves		(6,516)	(4,182)
Retained earnings		772,718	729,542
<b>Total equity</b>		<b>857,297</b>	<b>816,455</b>
<b>Total liabilities and equity</b>		<b>946,290</b>	<b>896,252</b>

Commitments and contingencies (Note 21)

See accompanying notes

On behalf of the Board:

  
 \_\_\_\_\_  
 DIRECTOR

  
 \_\_\_\_\_  
 DIRECTOR

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

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	Notes	2019	2018
Power sales		<b>105,040</b>	99,081
Guaranteed winter availability		<b>37,485</b>	36,870
Net finance income	16	<b>2,397</b>	1,844
Other revenue	12	<b>736</b>	738
<b>Revenue</b>		<b>145,658</b>	138,533
Operating costs	17	<b>66,217</b>	62,625
Depreciation and amortization	7,8	<b>28,451</b>	27,159
Other expense	18	<b>263</b>	1,035
Share of profit of joint venture	9	<b>(74)</b>	-
<b>Expenses</b>		<b>94,857</b>	90,819
<b>Profit for the year</b>		<b>50,801</b>	47,714
Other comprehensive (loss) income for the year			
Net fair value gain on reserve fund	10	<b>499</b>	63
Actuarial (loss) gain on employee benefits liability	14	<b>(2,833)</b>	1,576
<b>Other comprehensive (loss) income for the year</b>		<b>(2,334)</b>	1,639
<b>Total comprehensive income for the year</b>		<b>48,467</b>	49,353

*See accompanying notes*

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

<i>(thousands of Canadian dollars)</i>	Notes	Share Capital	Contributed Capital	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
<b>Balance at January 1, 2019</b>		<b>82,900</b>	<b>8,195</b>	<b>63</b>	<b>(4,245)</b>	<b>729,542</b>	<b>816,455</b>
<b>Profit for the year</b>		-	-	-	-	<b>50,801</b>	<b>50,801</b>
<b>Other comprehensive income (loss)</b>		-	-	<b>499</b>	<b>(2,833)</b>	-	<b>(2,334)</b>
<b>Total comprehensive income (loss) for the year</b>		-	-	<b>499</b>	<b>(2,833)</b>	<b>50,801</b>	<b>48,467</b>
<b>Preferred dividends</b>	<b>15</b>	-	-	-	-	<b>(7,625)</b>	<b>(7,625)</b>
<b>Balance at December 31, 2019</b>		<b>82,900</b>	<b>8,195</b>	<b>562</b>	<b>(7,078)</b>	<b>772,718</b>	<b>857,297</b>
Balance at January 1, 2018		82,900	6,160	-	(5,821)	689,822	773,061
Profit for the year		-	-	-	-	47,714	47,714
Other comprehensive income		-	-	63	1,576	-	1,639
Total comprehensive income for the year		-	-	63	1,576	47,714	49,353
Contributed capital		-	2,035	-	-	-	2,035
Preferred dividends	15	-	-	-	-	(7,994)	(7,994)
Balance at December 31, 2018		82,900	8,195	63	(4,245)	729,542	816,455

See accompanying notes

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

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	Notes	<b>2019</b>	2018
<b>Operating activities</b>			
Profit for the year		<b>50,801</b>	47,714
Adjustments to reconcile profit to cash provided from operating activities:			
Depreciation and amortization	7,8	<b>28,451</b>	27,159
Amortization of deferred contributions	12	<b>(736)</b>	(738)
Employee benefits		<b>2,678</b>	1,262
Loss on disposal of property, plant and equipment	18	<b>687</b>	953
Share of profit of joint venture	9	<b>(74)</b>	-
Decommissioning liabilities settled	13	<b>(33)</b>	(8)
Finance income	16	<b>(2,463)</b>	(1,935)
Finance expense	16	<b>66</b>	91
		<b>79,377</b>	74,498
Changes in non-cash working capital balances	23	<b>2,631</b>	(5,682)
Interest received		<b>2,560</b>	2,030
Interest paid		<b>(43)</b>	(32)
<b>Net cash provided from operating activities</b>		<b>84,525</b>	70,814
<b>Investing activities</b>			
Additions to property, plant and equipment	7	<b>(64,911)</b>	(65,671)
Additions to intangible assets	8	<b>(189)</b>	(19)
Decrease (increase) in short-term investments		<b>51,600</b>	(29,505)
Decrease in long-term investments		<b>-</b>	51,600
Increase in reserve fund		<b>(18,773)</b>	(18,757)
Changes in non-cash working capital balances	23	<b>(923)</b>	(3,635)
Additions to deferred contributions	12	<b>98</b>	-
Proceeds on disposal of property, plant and equipment		<b>202</b>	171
<b>Net cash used in investing activities</b>		<b>(32,896)</b>	(65,816)
<b>Financing activities</b>			
Increase in restricted cash		<b>(190)</b>	-
Increase in contributed capital	15	<b>-</b>	2,035
Preferred dividends	15	<b>(7,625)</b>	(7,994)
<b>Net cash used in financing activities</b>		<b>(7,815)</b>	(5,959)
<b>Net increase (decrease) in cash</b>		<b>43,814</b>	(962)
<b>Cash, beginning of the year</b>		<b>45,192</b>	46,154
<b>Cash, end of the year</b>		<b>89,006</b>	45,192

*See accompanying notes*

# CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

## NOTES TO FINANCIAL STATEMENTS

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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 (MW). 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 (the Lease) 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 annual audited financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Churchill Falls has adopted accounting policies which are based on IFRS applicable as at December 31, 2019, and include individual IFRS, International Accounting Standards (IAS), and interpretations made by the IFRS Interpretations Committee and the Standing Interpretations Committee.

These annual audited financial statements have been prepared on a historical cost basis, except for financial assets and financial liabilities which have been measured at fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVTOCI) which have been measured at fair value. The annual audited financial statements are presented in Canadian Dollars and all values rounded to the nearest thousand, except when otherwise noted. The annual audited financial statements were approved by Churchill Falls' Board of Directors on February 25, 2020.

#### 2.2 Cash and cash equivalents and Short-term Investments

Cash and cash equivalents consist of amounts on deposit with Schedule 1 Canadian Chartered banks, as well as highly liquid investments with maturities of three months or less. Investments with maturities greater than three months and less than twelve months are classified as short-term investments.

#### 2.3 Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes expenditures incurred in acquiring the inventories and bringing them to their existing condition and location. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

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**2.4 Property, Plant and Equipment**

Items of property, plant and equipment are recognized using the cost model and thus are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes materials, labour, contracted services, professional fees and, for qualifying assets, borrowing costs capitalized in accordance with Churchill Falls' accounting policy outlined in Note 2.6. Costs capitalized with the related asset include all those costs directly attributable to bringing the asset into operation. When significant parts of property, plant and equipment are required to be replaced at intervals, Churchill Falls recognizes such parts as individual assets with specific useful lives and depreciation rates. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repairs and maintenance costs are recognized in the Statement of Profit and Comprehensive Income as incurred. Property, plant and equipment are not revalued for financial reporting purposes. Depreciation commences when the assets are ready for their intended use.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Hydroelectric generation plant	20 to 100 years
Transmission and terminals	20 to 65 years
Service facilities and other	5 to 50 years

The assets' residual values, useful lives and method of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate. The carrying value of property, plant and equipment is reviewed for impairment whenever events indicate that the carrying amounts of those assets may not be recoverable.

**2.5 Intangible Assets**

Assets that are expected to generate future economic benefit and are measurable, including computer software costs, costs of technical service, and studies are capitalized as intangible assets in accordance with IAS 38.

Intangible assets with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. The estimated useful life and amortization method are reviewed at the end of each year, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

Amortization is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Computer software	7 to 10 years
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**2.6 Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in the Statement of Profit and Comprehensive Income in the period in which they are incurred.

**2.7 Impairment of Non-Financial Assets**

Property, plant and equipment and other non-financial assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

## CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

### NOTES TO FINANCIAL STATEMENTS

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Where it is not possible to estimate the recoverable amount of an individual asset, Churchill Falls estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from non-financial assets.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount and an impairment loss is recognized immediately in the Statement of Profit and Comprehensive Income.

#### 2.8 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 33.33% 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.

#### 2.9 Employee Benefits Liability

(i) Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. Contributions by Churchill Falls to this Plan are recognized as an expense when employees have rendered service entitling them to the contributions. Liabilities associated with this Plan are held with the Province.

(ii) Other Benefits

Churchill Falls provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a retirement allowance.

The cost of providing these benefits is determined using the projected unit credit method, with actuarial valuations completed on an annual basis, based on service and Management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

Actuarial gains and losses on Churchill Falls' defined benefit obligation are recognized in reserves in the period in which they occur. Past service costs are recognized in operating costs as incurred.

The retirement benefit obligation recognized in the Statement of Financial Position represents the present value of the defined benefit obligation.

#### 2.10 Provisions

A provision is a liability of uncertain timing or amount. A provision is recognized if Churchill Falls has a present legal obligation or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. The provision is measured at the present value of the best estimate of the expenditures expected to be required to settle the obligation using a discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. Provisions are re-measured at each Statement of Financial Position date using the current discount rate.

**2.11 Decommissioning, Restoration and Environmental Liabilities**

Legal and constructive obligations associated with the retirement of property, plant and equipment are recorded as liabilities when those obligations are incurred and are measured as the present value of the expected costs to settle the liability, discounted at a rate specific to the liability. The liability is accreted up to the date the liability will be incurred with a corresponding charge to net finance income. The carrying amount of decommissioning, restoration and environmental liabilities is reviewed annually with changes in the estimates of timing or amount of cash flows added to or deducted from the cost of the related asset or expensed in the Statement of Profit and Comprehensive Income if the liability is short-term in nature.

**2.12 Revenue Recognition**

**Revenue from Contracts with Customers**

Churchill Falls recognizes revenue from contracts with customers related to the sale of electricity. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Churchill Falls recognizes revenue when it transfers control of a product or service to a customer.

Revenue from the sale of energy is recognized when Churchill Falls satisfies its performance obligation by transferring energy to the customer. Sales within the Province are primarily at rates approved by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB), whereas sales to certain other major industrial customers and export sales are either at rates under the terms of the applicable contracts, or at market rates.

Churchill Falls recognizes revenue at the amount to which it has the right to invoice, which corresponds directly to the value to the customer of Churchill Falls' performance to date.

**2.13 Leases**

**Lessee Accounting**

Churchill Falls assesses whether a contract is or contains a lease, at inception of a contract. Churchill Falls recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets. For these leases, Churchill Falls recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, Churchill Falls uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed (and in-substance) lease payments, less any lease incentives;
- variable lease payments that depend on an index or rate; and
- payments expected under residual value guarantees and payments relating to purchase options and renewal option periods that are reasonably certain to be exercised (or periods subject to termination options that are not reasonably certain to be exercised).

The lease liability is subsequently measured at amortized cost using the effective interest rate method. Lease liabilities are remeasured, with a corresponding adjustment to the related right-of-use assets, when there is a change in variable lease payments arising from a change in an index or rate, or when Churchill Falls changes its assessment of whether purchase, renewal or termination options will be exercised.

Churchill Falls did not make any such adjustments during the periods presented.

## CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

### NOTES TO FINANCIAL STATEMENTS

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The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and accumulated impairment losses.

Whenever Churchill Falls incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under *IAS 37 – Provisions, Contingent Liabilities and Contingent Assets*. The costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the shorter period of the lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that Churchill Falls expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of the lease.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in operating costs in the period in which the event or condition that triggers those payments occurs.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. Churchill Falls has elected to apply this practical expedient.

#### 2.14 Foreign Currencies

Transactions in currencies other than Churchill Falls' functional currency (foreign currencies) are recognized using the exchange rate in effect at the date of the transaction, approximated by the prior month end close rate. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates of exchange in effect at the period end date. Foreign exchange gains and losses are included in the Statement of Profit and Comprehensive Income as other expense.

#### 2.15 Income Taxes

Churchill Falls is exempt from paying income taxes under Section 149(1) (d.2) of the Income Tax Act.

#### 2.16 Financial Instruments

##### Classification and Initial Measurement

Financial assets and financial liabilities are recognized in the Statement of Financial Position when Churchill Falls becomes a party to the contractual provisions of the instrument and are initially measured at fair value.

Financial assets are classified at amortized cost, fair value through other comprehensive income (FVTOCI), fair value through profit or loss (FVTPL) or as derivatives designated as hedging instruments in an effective hedge. Financial liabilities are classified as financial liabilities designated at FVTPL, amortized cost or as derivatives designated as hedging instruments in an effective hedge. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

##### Financial Assets at Amortized Cost

Financial assets with contractual cash flows arising on specified dates, consisting solely of principal and interest, and that are held within a business model whose objective is to collect the contractual cash flows are subsequently measured at amortized cost using the effective interest rate method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Churchill Falls' financial assets at amortized cost include cash, restricted cash and trade and other receivables.

## CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

### NOTES TO FINANCIAL STATEMENTS

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#### Financial Assets at FVTOCI

Financial assets measured at FVTOCI are those that have contractual cash flows arising on specific dates, consisting solely of principal and interest, and that are held within a business model whose objective is to collect the contractual cash flows and to sell the financial asset. Any change in the carrying amount of these assets other than foreign exchange gains and losses, impairment gains and losses and interest income are recognized in other comprehensive income accumulated in the fair value reserve. When these assets are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

Churchill Falls' financial assets measured at FVTOCI include reserve fund investments.

#### Financial Liabilities at Amortized Cost

Churchill Falls subsequently measures all financial liabilities at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the liability is derecognized.

Churchill Falls' financial liabilities at amortized cost include trade and other payables and rental and royalty payable.

#### Derecognition of Financial Instruments

Churchill Falls derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

Churchill Falls derecognizes financial liabilities when, and only when, its obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

#### Impairment of Financial Assets

Churchill Falls recognizes a loss allowance for expected credit losses (ECL) on investments in debt instruments that are measured at amortized cost or at FVTOCI. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

Churchill Falls always recognizes lifetime ECL for trade and other receivables. The ECL on these financial assets are estimated based on Churchill Falls' historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. Churchill Falls also records 12-month ECL for those financial assets which have low credit risk and where the low credit risk exemption has been applied. The classes of financial assets that have been identified to have low credit risk are cash and cash equivalents, restricted cash and the reserve fund.

For all other financial instruments, Churchill Falls recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, Churchill Falls measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

#### **2.17 Government Grants**

Government grants are recognized when there is reasonable assurance that Churchill Falls will comply with the associated conditions and that the grants will be received.

## CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

### NOTES TO FINANCIAL STATEMENTS

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Government grants are recognized in profit or loss on a systematic basis over the periods in which Churchill Falls recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that Churchill Falls should purchase, construct or otherwise acquire non-current assets are recognized as deferred contributions in the Statement of Financial Position and transferred to the Statement of Profit and Comprehensive Income on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to Churchill Falls with no future related costs are recognized in the Statement of Profit and Comprehensive Income in the period in which they become receivable.

### 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the annual audited financial statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ materially from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is reviewed if the revision affects only that period or in future periods.

#### 3.1 Use of Judgment

(i) Asset Impairment and Reversals

Churchill Falls applies judgment in evaluating impairment and impairment reversal indicators based on various internal and external factors.

The recoverable amount of a CGU or asset is determined based on the higher of fair value less costs of disposal and its value in use. Management uses judgment in selecting discount rates and considering the occurrence of future events when determining the recoverable amount. Changes in these factors will affect the recoverable amount of CGUs and assets, which may result in a material adjustment to their carrying value.

(ii) Property, Plant and Equipment

Churchill Falls' accounting policy relating to property, plant and equipment is described in Note 2.4. In applying this policy, judgment is used in determining whether certain costs are additions to the carrying amount of the property, plant and equipment as opposed to repairs and maintenance. If an asset has been developed, judgment is required to identify the point at which the asset is capable of being used as intended and to identify the directly attributable borrowing costs to be included in the carrying value of the development asset. Judgment is also used in determining the appropriate componentization structure for Churchill Falls' property, plant and equipment.

(iii) Determination of CGUs

Churchill Falls' accounting policy relating to impairment of non-financial assets is described in Note 2.7. In applying this policy, Churchill Falls groups assets into the smallest identifiable groups for which cash flows are largely independent of the cash flows from other assets or groups of assets. Judgment is used in determining the level at which cash flows are largely independent of other assets or groups of assets.

(iv) Discount Rates

Certain of Churchill Falls' financial liabilities are discounted using discount rates that are subject to Management's judgment.

(v) Consolidation of Joint Arrangements

Management exercises judgment when applying the criteria outlined in IFRS 11 to determine whether joint arrangements constitute joint ventures or joint operations. Management has determined that its interest in Twin Falls is considered a joint venture.

### **3.2 Use of Estimates**

(i) Property, Plant and Equipment

Amounts recorded for depreciation are based on the useful lives of Churchill Falls' assets. The useful lives of property, plant and equipment are determined by independent specialists and reviewed annually by Churchill Falls. These useful lives are Management's best estimate of the service lives of these assets. Changes to these lives could materially affect the amount of depreciation recorded.

(ii) Intangible Assets

Amounts recorded for amortization are based on the useful lives of Churchill Falls' assets. These useful lives are Management's best estimate of the service lives of these assets. Changes to these lives could materially affect the amount of amortization recorded.

(iii) Decommissioning Liabilities

Churchill Falls recognizes a liability for the fair value of the future expenditures required to settle obligations associated with the retirement of property, plant and equipment. Decommissioning liabilities are recorded as a liability at fair value, with a corresponding increase to property, plant and equipment. Accretion of decommissioning liabilities is included in the Statement of Profit and Comprehensive Income through net finance (income) expense. Differences between the recorded decommissioning liabilities and the actual decommissioning costs incurred are recorded as a gain or loss in the settlement period.

(iv) Employee Benefits

Churchill Falls provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a severance payment upon retirement. The expected cost of providing these other employee benefits is accounted for on an accrual basis, and has been actuarially determined using the projected unit credit method prorated on service, and Management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

(v) Revenue

In the absence of a signed agreement with Hydro-Québec regarding the Annual Energy Base (AEB) value, Churchill Falls and Hydro-Québec have been using the 2008 AEB value on an interim basis since September 1, 2016. Now that a final judgment has been received in the Declaratory Judgment Case, the Parties are in the process of negotiating the value of the final AEB that will establish the Continuous Energy for the term of the Renewed Power Contract.

### **4. CURRENT AND FUTURE CHANGES IN ACCOUNTING POLICIES**

The following is a list of standards/interpretations that have been issued and are effective for accounting periods commencing January 1, 2019 or January 1, 2020, as specified.

*IFRS 16 - Leases*<sup>1</sup>

*IAS 19 - Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*<sup>1</sup>

*IAS 1 - Presentation of Financial Statements*<sup>2</sup> and *IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors*<sup>2</sup> (Amendments to IAS 1 and IAS 8)

<sup>1</sup>Effective for annual periods beginning on or after January 1, 2019.

<sup>2</sup>Effective for annual periods beginning on or after January 1, 2020.

## CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

### NOTES TO FINANCIAL STATEMENTS

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#### 4.1 IFRS 16 - Leases

Effective January 1, 2019, Churchill Falls adopted IFRS 16 – Leases which introduces significant changes to lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low-value assets.

Churchill Falls has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 – Leases and IFRIC 4 – Determining Whether an Arrangement contains a Lease.

#### Impact of the new definition of a lease

In preparation for the first-time application of IFRS 16, Churchill Falls has carried out an implementation project which has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for Churchill Falls.

#### Impact on Lessee Accounting

##### Former operating leases

IFRS 16 changes how Churchill Falls accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet.

Applying IFRS 16, for all leases (except as noted below), Churchill Falls:

- a) recognizes right-of-use assets and lease liabilities in the Statement of Financial Position, initially measured at the present value of future lease payments;
- b) recognizes depreciation of right-of-use assets and interest on lease liabilities in the Statement of Profit and Comprehensive Income; and
- c) separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the Statement of Cash Flows.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), Churchill Falls has opted to recognize a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within operating costs in the Statement of Profit and Comprehensive Income.

##### Former finance leases

The main difference between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of residual value guarantees provided by a lessee to a lessor. Churchill Falls did not have any leases previously accounted for as finance leases under IAS 17, therefore, this change did not have an effect on its financial statements.

#### Impact on Lessor Accounting

IFRS 16 does not substantially change how a lessor accounts for leases. The changes to lessor accounting did not have an effect on Churchill Falls' annual audited financial statements.

#### Financial impact of the application of IFRS 16

The adoption of IFRS 16 had no impact on Churchill Falls' annual audited financial statements.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

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**4.2 IAS 19 - Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)**

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income. The application of these amendments to IAS 19 did not have a material impact on Churchill Falls' annual audited financial statements.

**4.3 IAS 1 - Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (Amendments to IAS 1 and IAS 8)**

The IASB issued amendments to IAS 1 and IAS 8 to align the definition of 'material' across the standards and to clarify certain aspects of the definition and to include the concept of 'obscuring information'. The amendments are intended to improve the understanding of the existing requirements rather than to significantly impact Churchill Falls' materiality judgments.

**5. TRADE AND OTHER RECEIVABLES**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2019</b>	2018
Due from related parties	<b>21,069</b>	21,162
Other receivables	<b>5,074</b>	3,866
	<b>26,143</b>	25,028

Other receivables include HST and other miscellaneous amounts.

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2019</b>	2018
0-60 days	<b>25,663</b>	24,774
60+ days	<b>480</b>	254
	<b>26,143</b>	25,028

**6. INVENTORIES**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2019</b>	2018
Materials and other	<b>14,106</b>	16,725
Construction aggregates	<b>2,701</b>	2,701
Fuel	<b>107</b>	147
	<b>16,914</b>	19,573

The cost of inventories recognized as an expense during the year is \$2.1 million (2018 - \$2.1 million) and is included in operating costs in the Statement of Profit and Comprehensive Income.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

**7. 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, 2018	824,854	285,520	217,517	24,725	1,352,616
Additions	-	-	-	65,671	65,671
Decommissioning liabilities and revisions	-	(1,063)	-	-	(1,063)
Other adjustments	(213)	206	25	-	18
Disposals	(4,834)	(1,628)	(1,799)	-	(8,261)
Transfers	43,588	15,299	16,251	(75,138)	-
<b>Balance at December 31, 2018</b>	<b>863,395</b>	<b>298,334</b>	<b>231,994</b>	<b>15,258</b>	<b>1,408,981</b>
<b>Additions</b>	<b>(83)</b>	<b>(37)</b>	<b>(2)</b>	<b>65,033</b>	<b>64,911</b>
<b>Decommissioning liabilities and revisions</b>	<b>-</b>	<b>511</b>	<b>-</b>	<b>-</b>	<b>511</b>
<b>Other adjustments</b>	<b>2,851</b>	<b>480</b>	<b>-</b>	<b>-</b>	<b>3,331</b>
<b>Disposals</b>	<b>(2,349)</b>	<b>(1,374)</b>	<b>(1,990)</b>	<b>-</b>	<b>(5,713)</b>
<b>Transfers</b>	<b>25,657</b>	<b>24,622</b>	<b>8,313</b>	<b>(58,592)</b>	<b>-</b>
<b>Balance at December 31, 2019</b>	<b>889,471</b>	<b>322,536</b>	<b>238,315</b>	<b>21,699</b>	<b>1,472,021</b>
<b>Depreciation</b>					
Balance at January 1, 2018	431,616	132,641	93,629	-	657,886
Depreciation	12,147	5,346	9,491	-	26,984
Other adjustments	(5)	15	8	-	18
Disposals	(4,341)	(1,052)	(1,744)	-	(7,137)
<b>Balance at December 31, 2018</b>	<b>439,417</b>	<b>136,950</b>	<b>101,384</b>	<b>-</b>	<b>677,751</b>
<b>Depreciation</b>	<b>13,358</b>	<b>5,793</b>	<b>9,149</b>	<b>-</b>	<b>28,300</b>
<b>Disposals</b>	<b>(1,998)</b>	<b>(1,134)</b>	<b>(1,692)</b>	<b>-</b>	<b>(4,824)</b>
<b>Balance at December 31, 2019</b>	<b>450,777</b>	<b>141,609</b>	<b>108,841</b>	<b>-</b>	<b>701,227</b>
<b>Carrying value</b>					
Balance at January 1, 2018	393,238	152,879	123,888	24,725	694,730
Balance at December 31, 2018	423,978	161,384	130,610	15,258	731,230
<b>Balance at December 31, 2019</b>	<b>438,694</b>	<b>180,927</b>	<b>129,474</b>	<b>21,699</b>	<b>770,794</b>

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

**8. INTANGIBLE ASSETS**

<i>(thousands of Canadian dollars)</i>	Computer Software	Construction in progress	Total
Cost			
Balance at January 1, 2018	1,572	-	1,572
Additions	19	-	19
Balance at December 31, 2018	1,591	-	1,591
<b>Additions</b>	<b>-</b>	<b>189</b>	<b>189</b>
<b>Transfers</b>	<b>46</b>	<b>(46)</b>	<b>-</b>
<b>Balance at December 31, 2019</b>	<b>1,637</b>	<b>143</b>	<b>1,780</b>
Amortization			
Balance at January 1, 2018	873	-	873
Amortization	175	-	175
Balance at December 31, 2018	1,048	-	1,048
<b>Amortization</b>	<b>151</b>	<b>-</b>	<b>151</b>
<b>Balance at December 31, 2019</b>	<b>1,199</b>	<b>-</b>	<b>1,199</b>
Carrying value			
Balance at January 1, 2018	699	-	699
Balance at December 31, 2018	543	-	543
<b>Balance at December 31, 2019</b>	<b>438</b>	<b>143</b>	<b>581</b>

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
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**9. INVESTMENT IN JOINT VENTURE**

Churchill Falls holds a 33.33% equity shareholding and majority voting power in Twin Falls, subject to the provisions of the Participation Agreement. Twin Falls is incorporated under the laws of Canada and developed a 225 MW hydroelectric generating plant on the Unknown River in Labrador. The plant has been inoperative since 1974. There has been no change in Churchill Falls' ownership or voting interest during the period.

The following is summarized financial information with respect to Twin Falls:

<i>(thousands of Canadian dollars)</i>	<b>2019</b>	2018
Current assets	<b>6,111</b>	5,890
Current liabilities	<b>43</b>	43
Net assets	<b>6,068</b>	5,847
Churchill Falls' share of net assets	<b>2,023</b>	1,949
Total revenue	<b>92</b>	93
Total profit (loss)	<b>220</b>	(4)
Churchill Falls' share of profit (loss)	<b>74</b>	-

The above amounts of assets and liabilities include the following:

Cash	<b>6,103</b>	384
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**10. RESERVE FUND**

In 2007 Churchill Falls commenced the creation of a \$75.0 million segregated reserve fund pursuant to the terms of the Shareholders' Agreement to contribute towards the funding of capital expenditures related to Churchill Falls' existing facilities and their replacement. In December 2019, \$18.8 was invested (2018 - \$18.8 million) into the fund as part of the Shareholders' Agreement to reestablish the \$75.0 million withdrawn in recent years.

This fund must remain in place until the end of the Shareholders' Agreement in 2041. Any amounts removed to fund capital expenditures must be replaced. Reserve fund holdings consist of securities issued by the Government of Canada, various provinces of Canada and Schedule 1 and 2 Canadian Chartered Banks.

The reserve fund consists of the following:

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2019</b>	2018
Reserve fund, beginning of the year	<b>18,789</b>	-
Principal contributions	<b>18,750</b>	18,750
Earnings invested (withdrawn)	<b>23</b>	(24)
Mark-to-market adjustment	<b>499</b>	63
Reserve fund, end of the year	<b>38,061</b>	18,789

Reserve fund contributions for the next three years are as follows:

<i>(thousands of Canadian dollars)</i>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Reserve fund contributions	18,750	9,375	9,375

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

**11. TRADE AND OTHER PAYABLES**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2019</b>	2018
Trade payables and accruals	<b>28,610</b>	24,718
Payables due to related parties	<b>656</b>	1,891
Other payables	<b>6,999</b>	6,043
	<b>36,265</b>	32,652

Other payables include HST and other miscellaneous amounts.

**12. DEFERRED CONTRIBUTIONS**

Churchill Falls has received contributions from Transport Canada related to the airport. These contributions are deferred and amortized to other revenue over the life of the related item of property, plant and equipment.

<i>As at (thousands of Canadian dollars)</i>	<b>2019</b>	2018
Deferred contributions, beginning of the year	<b>10,514</b>	11,252
Additions	<b>98</b>	-
Amortization	<b>(736)</b>	(738)
Deferred contributions, end of the year	<b>9,876</b>	10,514
Less: current portion	<b>(690)</b>	(738)
	<b>9,186</b>	9,776

**13. DECOMMISSIONING LIABILITIES**

Churchill Falls has recognized liabilities associated with the disposal of Polychlorinated Biphenyls (PCB).

The reconciliation of the beginning and ending carrying amounts of decommissioning liabilities as at December 31, 2019 and December 31, 2018 are as follows:

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2019</b>	2018
Decommissioning liabilities, beginning of the year	<b>784</b>	1,797
Accretion	<b>23</b>	58
Liabilities settled	<b>(33)</b>	(8)
Revisions	<b>511</b>	(1,063)
Decommissioning liabilities, end of the year	<b>1,285</b>	784

The total estimated undiscounted cash flows required to settle the PCB obligations at December 31, 2019 are \$1.4 million (2018 - \$0.9 million). The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at the Company's credit adjusted risk free rate of 2.5% (2018 - 2.9%).

**14. EMPLOYEE FUTURE BENEFITS**

**14.1 Pension Plan**

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions for the year ended December 31, 2019 of \$2,476,000 (2018 - \$2,435,000) are expensed as incurred.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

**14.2 Other Benefits**

Churchill Falls provides group life insurance and healthcare benefits on a cost shared basis to retired employees, and in certain cases, their surviving spouses, in addition to a retirement allowance. For the year ended December 31, 2019, cash payments to beneficiaries for its unfunded other employee future benefits were \$606,000 (2018 - \$875,000). An actuarial valuation was performed as at December 31, 2019.

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2019</b>	2018
Accrued benefit obligation		
Balance, beginning of the year	<b>29,173</b>	29,487
Current service cost	<b>1,380</b>	1,378
Past service cost	<b>698</b>	-
Interest cost	<b>1,206</b>	1,081
Transfers (a)	-	(322)
Benefits paid	<b>(606)</b>	(875)
Actuarial (gain) loss	<b>2,833</b>	(1,576)
Balance, end of the year	<b>34,684</b>	29,173

(a) When an employee transfers to a related party, the associated accrued benefit obligation is allocated to each respective party based on years of service.

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2019</b>	2018
Component of benefit cost		
Current service cost	<b>1,380</b>	1,378
Past service cost	<b>698</b>	-
Interest cost	<b>1,206</b>	1,081
Total benefit expense for the year	<b>3,284</b>	2,459

The significant actuarial assumptions used in measuring the accrued benefit obligations and benefit expenses are as follows:

	<b>2019</b>	2018
Discount rate - benefit cost	<b>3.90%</b>	3.55%
Discount rate - accrued benefit obligation	<b>3.20%</b>	3.90%
Rate of compensation increase	<b>3.50%</b>	3.50%

Assumed healthcare trend rates:

	<b>2019</b>	2018
Initial healthcare expense trend rate	<b>5.85%</b>	5.85%
Cost trend decline to	<b>3.60%</b>	4.50%
Current rate 5.85%, reducing linearly to 3.6% in 2040 and thereafter		

A 1% change in assumed healthcare trend rates would have had the following effects:

<i>Increase (thousands of Canadian dollars)</i>	<b>2019</b>	2018
Current service and interest cost	<b>513</b>	530
Accrued benefit obligation	<b>5,818</b>	4,798
<i>Decrease (thousands of Canadian dollars)</i>	<b>2019</b>	2018
Current service and interest cost	<b>(372)</b>	(380)
Accrued benefit obligation	<b>(4,415)</b>	(3,664)

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
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**15. SHAREHOLDERS' EQUITY**

**15.1 Share Capital**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2019</b>	2018
Common shares without nominal or par value		
Authorized - unlimited		
Issued, fully paid and outstanding - 8,759,999	<b>82,900</b>	82,900
Preferred shares without nominal or par value		
Authorized - 3		
Issued, fully paid and outstanding - 3	-	-

Additional shares cannot be issued without the approval of a majority of the directors on the Board of Directors, including at least one director nominated by Hydro and one director nominated by Hydro-Québec.

The preferred shares are divided into three classes, one of each has been issued, and the dividends thereon, which rank ahead of dividends on common shares, are as follows:

The Class A Cumulative Preferred Shareholder is entitled to dividend payments calculated as the amount equal to the income taxes which would have been received by the Province had Churchill Falls continued to be a taxable corporation.

The Class B and Class C Redeemable Cumulative Preferred Shareholders are no longer entitled to receive dividends.

**15.2 Contributed Capital**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2019</b>	2018
Twin Falls Power Corporation Limited (Twin Falls)	<b>55</b>	55
Labrador Transmission Corporation (Labrador Transco)	<b>494</b>	494
Churchill Falls (Labrador) Corporation Trust (the Trust)	<b>7,646</b>	7,646
Total contributed capital	<b>8,195</b>	8,195

During 2019, the Trust contributed \$nil (2018 - \$2,035,000). The Trust contributed capital balance will remain in place with the final decision received on the Good faith case, all costs now have been recovered from the Government of Newfoundland and Labrador.

**15.3 Dividends Paid and Proposed**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2019</b>	2018
Declared during the year		
Final preferred dividend for prior year	<b>608</b>	1,268
Interim preferred dividend for current year	<b>7,017</b>	6,726
	<b>7,625</b>	7,994
Proposed for approval, not recognized as payable at December 31		
Final dividend underpayment for current year	<b>700</b>	608

During 2019, Churchill Falls did not pay any common dividends (2018 - \$nil).

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

**16. NET FINANCE INCOME**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2019</b>	2018
Finance income		
Interest on reserve fund	<b>270</b>	13
Interest on investments	<b>435</b>	841
Bank interest income	<b>1,758</b>	1,081
	<b>2,463</b>	1,935
Finance expense		
Accretion of decommissioning liability	<b>23</b>	58
Other interest expense	<b>43</b>	33
	<b>66</b>	91
Net finance income	<b>2,397</b>	1,844

**17. OPERATING COSTS**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2019</b>	2018
Salaries and benefits	<b>39,447</b>	37,324
Maintenance and materials	<b>11,237</b>	10,100
Rental and royalty	<b>6,889</b>	6,679
Insurance	<b>3,236</b>	3,170
Professional services	<b>2,578</b>	3,279
Other operating costs	<b>2,830</b>	2,073
	<b>66,217</b>	62,625

**18. OTHER EXPENSE**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2019</b>	2018
Realized foreign exchange gain	<b>(2)</b>	(2)
Unrealized foreign exchange (gain) loss	<b>(3)</b>	10
Loss on disposal of property, plant and equipment	<b>687</b>	953
Other asset disposal costs	-	74
Other	<b>(419)</b>	-
Other expense	<b>263</b>	1,035

**19. FINANCIAL INSTRUMENTS**

**19.1 Fair Value**

The estimated fair values of financial instruments as at December 31, 2019 and December 31, 2018 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.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

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 fair value measurement during the year ended December 31, 2019 and year ended December 31, 2018.

As at December 31, 2019 and December 31, 2018, Churchill Falls did not have any Level 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		December 31, 2019		December 31, 2018	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Reserve fund	2	38,061	38,061	18,789	18,789

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

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.

**19.2 Risk Management**

Churchill Falls is exposed to certain credit, liquidity and market price risks through its operating, financing and investing activities. Financial risk is managed in accordance with a Board approved policy, which outlines the objectives and strategies for the management of financial risk, including the use of derivative contracts. Permitted financial risk management strategies are aimed at minimizing the volatility of Churchill Falls' expected future cash flows.

Credit Risk

Expected future cash flows are exposed to credit risk through operating activities, primarily due to the potential for non-performance by customers, and through financing activities, based on the risk of non-performance by counterparties to financial instruments. The degree of exposure on cash, accounts receivable, the reserve fund and energy sales depends on the financial capacity and stability of those customers and counterparties. The maximum exposure to credit risk on these financial instruments is represented by their carrying values on the Statement of Financial Position at the reporting date.

Credit exposure on energy sales is limited, as Churchill Falls' two main customers Hydro and Hydro-Québec are investment grade utilities. As at December 31, 2019, there was no allowance for doubtful accounts included in trade and other receivables (2018 - \$nil).

Credit risk on cash is limited, as Churchill Falls' cash deposits are held by a Schedule 1 Canadian Chartered bank with a rating of A+ (Standard and Poor's).

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

Credit exposure on the reserve fund is mitigated by adhering to an investment policy which restricts the holdings to long-term debt instruments issued or guaranteed by the Government of Canada or any province of Canada. Investment in the long-term debt instruments of Canadian banks are also permitted, provided the bank is rated A or higher by Standard and Poor's. With the exception of Government of Canada, holdings of any one issuer are limited to 10% of the total principal amount of the portfolio. The following credit risk table provides information on credit exposures according to issuer type and credit rating for the reserve fund:

	Issuer Credit Rating	Fair Value of Portfolio (%)	Issuer Credit Rating	Fair Value of Portfolio (%)
	2019		2018	
Provincial Governments	<b>A- to A+</b>	<b>40.50%</b>	A- to A+	<b>38.57%</b>
Provincially owned utilities	<b>AA- to AAA-</b>	<b>8.93%</b>	AA- to AAA-	-
Provincially owned utilities	<b>A- to A+</b>	<b>4.54%</b>	A- to A+	<b>8.91%</b>
Schedule 1 Canadian banks	<b>AA- to AAA</b>	<b>12.17%</b>	AA- to AAA	<b>14.15%</b>
Schedule 1 Canadian banks	<b>A- to A+</b>	<b>33.86%</b>	A- to A+	<b>38.37%</b>
		<b>100%</b>		<b>100%</b>

Liquidity Risk

Churchill Falls is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. Churchill Falls manages this risk by maintaining borrowing facilities, a minimum cash balance of \$23.0 million (2018 - \$22.5 million) and business interruption insurance. Short-term liquidity is provided through cash on hand, funds from operations and a \$10.0 million (2018 - \$10.0 million) unsecured credit facility. Long-term liquidity risk is managed by maintenance of the reserve fund in accordance with the June 1999 shareholders' agreement and a dividend management policy that meets long-term liquidity requirements associated with Churchill Falls' capital expenditure program.

The following are the contractual maturities of Churchill Falls' financial liabilities, including principal and interest, as at December 31, 2019.

<i>(thousands of Canadian dollars)</i>	< 1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	36,265	-	-	-	36,265
Rental and royalty payable	6,883	-	-	-	6,883
	43,148	-	-	-	43,148

Market Risk

Churchill Falls is exposed to possible market price movements that could impact expected future cash flow and the carrying value of certain financial assets and liabilities.

Interest Rates

Changes in prevailing interest rates will impact the fair value of financial assets and liabilities classified as FVTOCI, which includes the reserve fund. Expected future cash flows from these assets and liabilities are also impacted in certain circumstances, such as when reserve fund securities are sold prior to maturity.

	Other Comprehensive Income	
	0.5% Decrease	0.5% Increase
<i>(thousands of Canadian dollars)</i>		
Interest on reserve fund	597	(632)

Foreign Currency and Commodity Exposure

Churchill Falls does not hold any financial instrument whose value would vary due to changes in a commodity price. Cash flow exposure to commodity price and foreign exchange risk arises primarily through investing activities, most notably US dollar denominated capital expenditures, and regular procurement activities. The exposure, however, is considered immaterial.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

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**20. 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
Nalcor	100% shareholder of Hydro
The Province	100% shareholder of Nalcor
Twin Falls	Jointly controlled by Churchill Falls
Labrador Transco	100% owned subsidiary of Nalcor
Nalcor Energy Marketing Corporation	100% owned subsidiary of Nalcor
The Trust	Churchill Falls (Labrador) Corporation Trust was created by the Province with Churchill Falls as the beneficiary

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

<i>As at December 31 (thousands of Canadian dollars)</i>	Related party	2019	2018
<b>Trade and other receivables:</b>			
Power sales	Hydro-Québec	5,644	5,659
Guaranteed winter availability	Hydro-Québec	7,532	7,464
Power sales and other	Hydro	3,743	4,314
Engineering, technical, management and administrative services	Other	14	-
CF Trust receivable	The Trust	-	1,848
Engineering, technical, management and administrative services	Hydro-Québec	4,136	1,877
<b>Trade and other payables:</b>			
Other	Hydro-Québec	-	844
Engineering, technical, management and administrative services	Other	656	1,047
<b>Rental and royalty payable</b>	The Province	6,883	6,674

<i>For the year ended December 31 (thousands of Canadian dollars)</i>		2019	2018
<b>Power sales:</b>			
Long-term power contract	Hydro-Québec	57,887	57,919
Long-term power contracts	Hydro	47,153	41,162
<b>Guaranteed winter availability:</b>			
Guaranteed winter availability contract	Hydro-Québec	37,485	36,870
<b>Operating (recovery) costs:</b>			
Engineering, technical, management and administrative services	Hydro-Québec	(6,389)	(2,425)
Engineering, technical, management and administrative services	Hydro	(59)	100
Rental and royalty expense	The Province	6,889	6,679
Engineering, technical, management and administrative services	Other	3,715	3,516
Short-term property rental	Labrador Transco	-	220
<b>Other income:</b>			
Gain on disposal of property, plant and equipment	Other	24	112

(a) During 2019, Churchill Falls purchased property, plant and equipment from Labrador Transmission Corporation for \$268,000.

**20.1 Key Management Personnel**

Compensation for key management personnel, which Churchill Falls defines as its executives who have the primary authority and responsibility in planning, directing and controlling the activities of the entity, includes compensation for senior executives. Salaries and employee benefits include base salaries, performance contract payments, vehicle allowances and contributions to employee benefit plans. Post-employment benefits include contributions to the Province's Public Service Pension Plan.

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	2019	2018
Salaries and employee benefits	346	285
Post-employment benefits	33	29
	<b>379</b>	<b>314</b>

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

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**21. COMMITMENTS AND CONTINGENCIES**

- (a) Outstanding commitments for capital projects total approximately \$29.8 million as at December 31, 2019 (December 31, 2018 - \$20.1 million).
- (b) Churchill Falls is subject to various legal proceedings and claims in the normal course of business. Although the outcome of such actions cannot be predicted with certainty, Management currently believes Churchill Falls' exposure to such claims and litigation, to the extent not covered by insurance policies or otherwise provided for, will not materially affect its financial position.
- (c) In August 2016, Churchill Falls received judgment from the Québec Superior Court 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. The Court ruled in favour of Hydro-Québec and the ruling requires Churchill Falls to pay court costs of approximately \$0.4 million to Hydro-Québec. Churchill Falls filed a Notice of Appeal with the Québec Court of Appeal and the appeal hearing was held on December 4, 2018. The decision of the Court of Appeal was issued on June 20, 2019 and the decision of the Quebec Superior Court was partially overturned. In addition, the Court of Appeal reversed the order requiring Churchill Falls to pay court costs for the trial and ordered Hydro-Quebec to pay Churchill Falls' court costs associated with the Appeal proceedings. The decision of the Court of Appeal was not appealed so this matter is closed. The impact of the ruling is under review by Management.

**22. CAPITAL MANAGEMENT**

Churchill Falls' objective when managing capital is to maintain its ability to continue as a going concern. Churchill Falls' requirements for capital in the future are expected to remain consistent, in line with the aging of the plant and related infrastructure and the execution of the long-term asset management plan. The focus of the capital management policy is to provide flexibility to ensure cash continues to be available to satisfy capital requirements. Managing the level of common dividend payments is a key aspect of ensuring the availability of funding to maintain the plant and infrastructure.

At present, the capital position of Churchill Falls is comprised entirely of equity capital (issued capital, shareholder contributions, reserves and retained earnings). The capital structure is adjusted through the amount of dividends paid to shareholders.

Churchill Falls maintains a \$10.0 million Canadian or US equivalent unsecured operating credit facility with its banker. Advances may take the form of a Prime Rate advance or the issuance of a Bankers' Acceptance (BA) with interest calculated at the Prime Rate or prevailing Government BA Fee. The facility provides coverage for overdrafts on Churchill Falls' bank accounts, with interest calculated at the Prime Rate. There were no amounts drawn on this facility as at December 31, 2019 (2018 - \$nil).

Churchill Falls has issued three irrevocable letters of credit totalling \$2.0 million (2018 - \$2.0 million), \$1.0 million of which does not impact the borrowing limit of the operating credit facility (2018 - \$1.0 million). The letters of credit ensure satisfactory management of its waste management system and compliance with a certificate of approval for the transportation of special and hazardous wastes, granted by the Provincial Department of Environment and Conservation.

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

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**23. SUPPLEMENTARY CASH FLOW INFORMATION**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2019</b>	<b>2018</b>
Trade and other receivables	<b>(1,212)</b>	(4,975)
Inventories	<b>(672)</b>	30
Prepayments	<b>(230)</b>	112
Trade and other payables	<b>3,613</b>	(4,801)
Rental and royalty payable	<b>209</b>	317
<b>Change in non-cash working capital balances</b>	<b>1,708</b>	<b>(9,317)</b>
Related to:		
Operating activities	<b>2,631</b>	(5,682)
Investing activities	<b>(923)</b>	(3,635)
	<b>1,708</b>	<b>(9,317)</b>

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**FINANCIAL STATEMENTS**  
**December 31, 2020**

## Independent Auditor's Report

To the Shareholders of Churchill Falls (Labrador) Corporation Limited

### Opinion

We have audited the financial statements of Churchill Falls (Labrador) Corporation Limited (the "Company"), which comprise of financial position as at December 31, 2020, and the statements of profit and comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*Deloitte LLP*

Chartered Professional Accountants  
March 5, 2021

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

As at December 31 (thousands of Canadian dollars)

Notes

2020

2019

**ASSETS**

Current assets

Cash		<b>97,073</b>	89,006
Restricted cash		<b>274</b>	190
Trade and other receivables	5	<b>21,050</b>	26,143
Inventories	6	<b>18,220</b>	16,914
Current portion of reserve fund	9	<b>4,208</b>	-
Prepayments		<b>3,095</b>	2,578
<b>Total current assets</b>		<b>143,920</b>	134,831

Non-current assets

Property, plant and equipment	7	<b>801,200</b>	770,794
Intangible assets	8	<b>661</b>	581
Investment in joint venture		<b>1,976</b>	2,023
Reserve fund	9	<b>54,279</b>	38,061
<b>Total assets</b>		<b>1,002,036</b>	946,290

**LIABILITIES AND EQUITY**

Current liabilities

Trade and other payables	10	<b>48,668</b>	36,265
Rental and royalty payable	19	<b>6,546</b>	6,883
Current portion of deferred contributions	11	<b>690</b>	690
<b>Total current liabilities</b>		<b>55,904</b>	43,838

Non-current liabilities

Deferred contributions	11	<b>8,533</b>	9,186
Decommissioning liabilities	12	<b>1,000</b>	1,285
Employee future benefits	13	<b>36,899</b>	34,684
<b>Total liabilities</b>		<b>102,336</b>	88,993

Shareholders' equity

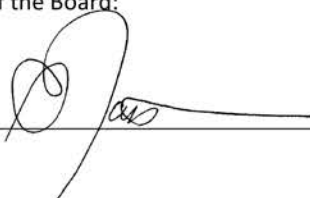
Share capital	14	<b>82,900</b>	82,900
Contributed capital	14	<b>8,195</b>	8,195
Reserves		<b>(5,111)</b>	(6,516)
Retained earnings		<b>813,716</b>	772,718
<b>Total equity</b>		<b>899,700</b>	857,297
<b>Total liabilities and equity</b>		<b>1,002,036</b>	946,290

Commitments and contingencies (Note 20)

See accompanying notes

On behalf of the Board:

DIRECTOR



DIRECTOR



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

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	Notes	2020	2019
Energy sales		<b>106,241</b>	105,040
Guaranteed winter availability		<b>36,990</b>	37,485
Net finance income	15	<b>1,821</b>	2,397
Other revenue		<b>691</b>	750
<b>Revenue</b>		<b>145,743</b>	145,672
Operating costs	16	<b>58,299</b>	59,342
Depreciation and amortization	7,8	<b>30,456</b>	28,451
Other expense	17	<b>8,312</b>	7,152
Share of loss (profit) of joint venture		<b>47</b>	(74)
<b>Expenses</b>		<b>97,114</b>	94,871
<b>Profit for the year</b>		<b>48,629</b>	50,801
Other comprehensive income (loss) for the year			
Net fair value gain on reserve fund		<b>1,676</b>	499
Actuarial loss on employee benefits liability		<b>(271)</b>	(2,833)
<b>Other comprehensive income (loss) for the year</b>		<b>1,405</b>	(2,334)
<b>Total comprehensive income for the year</b>		<b>50,034</b>	48,467

*See accompanying notes*

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

<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, 2020</b>		<b>82,900</b>	<b>8,195</b>	<b>562</b>	<b>(7,078)</b>	<b>772,718</b>	<b>857,297</b>
<b>Profit for the year</b>		-	-	-	-	<b>48,629</b>	<b>48,629</b>
<b>Other comprehensive income (loss)</b>		-	-	<b>1,676</b>	<b>(271)</b>	-	<b>1,405</b>
<b>Total comprehensive income (loss) for the year</b>		-	-	<b>1,676</b>	<b>(271)</b>	<b>48,629</b>	<b>50,034</b>
<b>Preferred dividends</b>	<b>14</b>	-	-	-	-	<b>(7,631)</b>	<b>(7,631)</b>
<b>Balance at December 31, 2020</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>
Balance at January 1, 2019		82,900	8,195	63	(4,245)	729,542	816,455
Profit for the year		-	-	-	-	50,801	50,801
Other comprehensive income (loss)		-	-	499	(2,833)	-	(2,334)
Total comprehensive income (loss) for the year		-	-	499	(2,833)	50,801	48,467
Preferred dividends	14	-	-	-	-	(7,625)	(7,625)
Balance at December 31, 2019		82,900	8,195	562	(7,078)	772,718	857,297

See accompanying note

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

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	Notes	2020	2019
<b>Operating activities</b>			
Profit for the year		<b>48,629</b>	50,801
Adjustments to reconcile profit to cash provided from operating activities:			
Depreciation and amortization	7,8	<b>30,456</b>	28,451
Amortization of deferred contributions	11	<b>(691)</b>	(736)
Employee benefits		<b>1,944</b>	2,678
Loss on disposal of property, plant and equipment	17	<b>1,760</b>	687
Share of loss (profit) of joint venture		<b>47</b>	(74)
Decommissioning liabilities settled	12	<b>(37)</b>	(33)
Finance income	15	<b>(1,897)</b>	(2,463)
Finance expense	15	<b>76</b>	66
		<b>80,287</b>	79,377
Changes in non-cash working capital balances	22	<b>11,629</b>	2,631
Interest received		<b>1,915</b>	2,560
Interest paid		<b>(44)</b>	(43)
<b>Net cash provided from operating activities</b>		<b>93,787</b>	84,525
<b>Investing activities</b>			
Additions to property, plant and equipment	7	<b>(63,414)</b>	(64,911)
Additions to intangible assets	8	<b>(222)</b>	(189)
Decrease in short-term investments		-	51,600
Increase in reserve fund	9	<b>(18,750)</b>	(18,773)
Additions to deferred contributions	11	<b>38</b>	98
Proceeds on disposal of property, plant and equipment		-	202
Changes in non-cash working capital balances	22	<b>4,343</b>	(923)
<b>Net cash used in investing activities</b>		<b>(78,005)</b>	(32,896)
<b>Financing activities</b>			
Increase in restricted cash		<b>(84)</b>	(190)
Preferred dividends	14	<b>(7,631)</b>	(7,625)
<b>Net cash used in financing activities</b>		<b>(7,715)</b>	(7,815)
Net increase in cash		<b>8,067</b>	43,814
Cash, beginning of the year		<b>89,006</b>	45,192
Cash, end of the year		<b>97,073</b>	89,006

# CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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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

#### 2.1 Statement of Compliance and Basis of Measurement

These annual audited financial statements (financial statements) have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

These financial statements have been prepared on a historical cost basis, except for financial assets and financial liabilities which have been measured at fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVTOCI) which have been measured at fair value. The financial statements are presented in Canadian Dollars and all values rounded to the nearest thousand, except when otherwise noted. The financial statements were approved by Churchill Falls' Board of Directors on February 26, 2021.

#### 2.2 Cash and cash equivalents and Short-term Investments

Cash and cash equivalents consist of amounts on deposit with Schedule 1 Canadian Chartered banks, as well as highly liquid investments with maturities of three months or less. Investments with maturities greater than three months and less than twelve months are classified as short-term investments.

#### 2.3 Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes expenditures incurred in acquiring the inventories and bringing them to their existing condition and location. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

#### 2.4 Property, Plant and Equipment

Items of property, plant and equipment are recognized using the cost model and thus are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes materials, labour, contracted services, professional fees and, for qualifying assets, borrowing costs capitalized in accordance with Churchill Falls' accounting policy outlined in Note 2.6. Costs capitalized with the related asset include all those costs directly attributable to bringing the asset into operation. When significant parts of property, plant and equipment are required to be replaced at intervals, Churchill Falls recognizes such parts as individual assets with specific useful lives and depreciation rates. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repairs and maintenance costs are recognized in the Statement of Profit and Comprehensive Income as incurred. Property, plant and equipment are not revalued for financial reporting purposes. Depreciation commences when the assets are ready for their intended use.

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

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Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Hydroelectric generation plant	7 to 100 years
Transmission and terminals	7 to 70 years
Service facilities and other	3 to 55 years

The assets' residual values, useful lives and method of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate. The carrying value of property, plant and equipment is reviewed for impairment whenever events indicate that the carrying amounts of those assets may not be recoverable.

**2.5 Intangible Assets**

Assets that are expected to generate future economic benefit and are measurable, including computer software costs, costs of technical service, and studies are capitalized as intangible assets in accordance with International Accounting Standard (IAS) 38 - Intangible Assets.

Intangible assets with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. The estimated useful life and amortization method are reviewed at the end of each year, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

Amortization is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Computer software	7 to 10 years
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**2.6 Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in the Statement of Profit and Comprehensive Income in the period in which they are incurred.

**2.7 Impairment of Non-Financial Assets**

Property, plant and equipment and other non-financial assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Where it is not possible to estimate the recoverable amount of an individual asset, Churchill Falls estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from non-financial assets.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount and an impairment loss is recognized immediately in the Statement of Profit and Comprehensive Income.

## CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

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#### 2.8 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 33.33% 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.

#### 2.9 Employee Benefits Liability

(i) Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. Contributions by Churchill Falls to this Plan are recognized as an expense when employees have rendered service entitling them to the contributions. Liabilities associated with this Plan are held with the Province.

(ii) Other Benefits

Churchill Falls provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a retirement allowance.

The cost of providing these benefits is determined using the projected unit credit method, with actuarial valuations completed on an annual basis, based on service and Management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

Actuarial gains and losses on Churchill Falls' defined benefit obligation are recognized in reserves in the period in which they occur. Past service costs are recognized in operating costs as incurred.

The retirement benefit obligation recognized in the Statement of Financial Position represents the present value of the defined benefit obligation.

#### 2.10 Provisions

A provision is a liability of uncertain timing or amount. A provision is recognized if Churchill Falls has a present legal obligation or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. The provision is measured at the present value of the best estimate of the expenditures expected to be required to settle the obligation using a discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. Provisions are re-measured at each Statement of Financial Position date using the current discount rate.

#### 2.11 Decommissioning, Restoration and Environmental Liabilities

Legal and constructive obligations associated with the retirement of property, plant and equipment are recorded as liabilities when those obligations are incurred and are measured as the present value of the expected costs to settle the liability, discounted at a rate specific to the liability. The liability is accreted up to the date the liability will be incurred with a corresponding charge to net finance income. The carrying amount of decommissioning, restoration and environmental liabilities is reviewed annually with changes in the estimates of timing or amount of cash flows added to or deducted from the cost of the related asset or expensed in the Statement of Profit and Comprehensive Income if the liability is short-term in nature.

## **2.12 Revenue Recognition**

### **Revenue from Contracts with Customers**

Churchill Falls recognizes revenue from contracts with customers related to the sale of electricity. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Churchill Falls recognizes revenue when it transfers control of a product or service to a customer.

Revenue from the sale of energy is recognized when Churchill Falls satisfies its performance obligation by transferring energy to the customer. Sales within the Province are primarily at rates approved by the Newfoundland and Labrador Board of Commissioners of Public Utilities, whereas sales to certain other major industrial customers and export sales are either at rates under the terms of the applicable contracts, or at market rates.

Churchill Falls recognizes revenue at the amount to which it has the right to invoice, which corresponds directly to the value to the customer of Churchill Falls' performance to date.

## **2.13 Leasing**

### **Lessee Accounting**

Churchill Falls assesses whether a contract is or contains a lease, at inception of a contract. Churchill Falls recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets. For these leases, Churchill Falls recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, Churchill Falls uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed (and in-substance) lease payments, less any lease incentives;
- variable lease payments that depend on an index or rate; and
- payments expected under residual value guarantees and payments relating to purchase options and renewal option periods that are reasonably certain to be exercised (or periods subject to termination options that are not reasonably certain to be exercised).

The lease liability is subsequently measured at amortized cost using the effective interest rate method. Lease liabilities are remeasured, with a corresponding adjustment to the related right-of-use assets, when there is a change in variable lease payments arising from a change in an index or rate, or when Churchill Falls changes its assessment of whether purchase, renewal or termination options will be exercised.

Churchill Falls did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and accumulated impairment losses.

Whenever Churchill Falls incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under *IAS 37 – Provisions, Contingent Liabilities and Contingent Assets*. The costs are included in the related right-of-use asset.

## CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

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Right-of-use assets are depreciated over the shorter period of the lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that Churchill Falls expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of the lease.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in operating costs in the period in which the event or condition that triggers those payments occurs.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. Churchill Falls has elected to apply this practical expedient.

#### **2.14 Foreign Currencies**

Transactions in currencies other than Churchill Falls' functional currency (foreign currencies) are recognized using the exchange rate in effect at the date of the transaction, approximated by the prior month end close rate. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates of exchange in effect at the period end date. Foreign exchange gains and losses are included in the Statement of Profit and Comprehensive Income as other expense.

#### **2.15 Income Taxes**

Churchill Falls is exempt from paying income taxes under Section 149(1) (d.2) of the Income Tax Act.

#### **2.16 Financial Instruments**

##### Classification and Initial Measurement

Financial assets and financial liabilities are recognized in the Statement of Financial Position when Churchill Falls becomes a party to the contractual provisions of the instrument and are initially measured at fair value.

Financial assets are classified at amortized cost, fair value through other comprehensive income (FVTOCI), fair value through profit or loss (FVTPL) or as derivatives designated as hedging instruments in an effective hedge. Financial liabilities are classified as financial liabilities designated at FVTPL, amortized cost or as derivatives designated as hedging instruments in an effective hedge. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

##### Financial Assets at Amortized Cost

Financial assets with contractual cash flows arising on specified dates, consisting solely of principal and interest, and that are held within a business model whose objective is to collect the contractual cash flows are subsequently measured at amortized cost using the effective interest rate method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Churchill Falls' financial assets at amortized cost include cash, restricted cash and trade and other receivables.

##### Financial Assets at FVTOCI

Financial assets measured at FVTOCI are those that have contractual cash flows arising on specific dates, consisting solely of principal and interest, and that are held within a business model whose objective is to collect the contractual cash flows and to sell the financial asset. Any change in the carrying amount of these assets other than foreign exchange gains and losses, impairment gains and losses and interest income are recognized in other comprehensive income accumulated in the fair value reserve. When these assets are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

Churchill Falls' financial assets measured at FVTOCI include reserve fund investments.

## CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

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#### Financial Liabilities at Amortized Cost

Churchill Falls subsequently measures all financial liabilities at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the liability is derecognized.

Churchill Falls' financial liabilities at amortized cost include trade and other payables and rental and royalty payable.

#### Derecognition of Financial Instruments

Churchill Falls derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

Churchill Falls derecognizes financial liabilities when, and only when, its obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

#### Impairment of Financial Assets

Churchill Falls recognizes a loss allowance for expected credit losses (ECL) on investments in debt instruments that are measured at amortized cost or at FVTOCI. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

Churchill Falls always recognizes lifetime ECL for trade and other receivables. The ECL on these financial assets are estimated based on Churchill Falls' historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. Churchill Falls also records 12-month ECL for those financial assets which have low credit risk and where the low credit risk exemption has been applied. The classes of financial assets that have been identified to have low credit risk are cash and cash equivalents, restricted cash and the reserve fund.

For all other financial instruments, Churchill Falls recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, Churchill Falls measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

#### **2.17 Government Grants**

Government grants are recognized when there is reasonable assurance that Churchill Falls will comply with the associated conditions and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which Churchill Falls recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that Churchill Falls should purchase, construct or otherwise acquire non-current assets are recognized as deferred contributions in the Statement of Financial Position and transferred to the Statement of Profit and Comprehensive Income on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to Churchill Falls with no future related costs are recognized in the Statement of Profit and Comprehensive Income in the period in which they become receivable.

### **3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

The preparation of the financial statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ materially from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is reviewed if the revision affects only that period or in future periods.

The World Health Organization declared the Coronavirus disease (COVID-19) outbreak a Public Health Emergency of International Concern on January 30, 2020 and a pandemic on March 11, 2020. In order to mitigate the spread of COVID-19 there have been global restrictions on travel, quarantines, self-isolation, social and physical distancing and forced closure of certain types of public places and non-essential businesses. These actions have caused and continue to cause disruption to operations and economic uncertainty.

For the year ended December 31, 2020, COVID-19 did not have a significant financial impact on Churchill Falls' results of operations, financial position or cash flow. COVID-19 is an evolving situation that may have widespread implications for Churchill Falls' environment, operations and financial results. At this time Management cannot reasonably estimate the duration and magnitude of the COVID-19 impact on the economy and future effect on Churchill Falls.

#### **3.1 Use of Judgment**

(i) Asset Impairment and Reversals

Churchill Falls applies judgment in evaluating impairment and impairment reversal indicators based on various internal and external factors.

The recoverable amount of a CGU or asset is determined based on the higher of fair value less costs of disposal and its value in use. Management uses judgment in selecting discount rates and considering the occurrence of future events when determining the recoverable amount. Changes in these factors will affect the recoverable amount of CGUs and assets, which may result in a material adjustment to their carrying value.

(ii) Property, Plant and Equipment

Churchill Falls' accounting policy relating to property, plant and equipment is described in Note 2.4. In applying this policy, judgment is used in determining whether certain costs are additions to the carrying amount of the property, plant and equipment as opposed to repairs and maintenance. If an asset has been developed, judgment is required to identify the point at which the asset is capable of being used as intended and to identify the directly attributable borrowing costs to be included in the carrying value of the development asset. Judgment is also used in determining the appropriate componentization structure for Churchill Falls' property, plant and equipment.

(iii) Determination of CGUs

Churchill Falls' accounting policy relating to impairment of non-financial assets is described in Note 2.7. In applying this policy, Churchill Falls groups assets into the smallest identifiable groups for which cash flows are largely independent of the cash flows from other assets or groups of assets. Judgment is used in determining the level at which cash flows are largely independent of other assets or groups of assets.

(iv) Discount Rates

Certain of Churchill Falls' financial liabilities are discounted using discount rates that are subject to Management's judgment.

(v) Consolidation of Joint Arrangements

Management exercises judgment when applying the criteria outlined in IFRS 11 – Joint Arrangements to determine whether joint arrangements constitute joint ventures or joint operations. Management has determined that its interest in Twin Falls is considered a joint venture.

**3.2 Use of Estimates**

(i) Property, Plant and Equipment

Amounts recorded for depreciation are based on the useful lives of Churchill Falls' assets. The useful lives of property, plant and equipment are determined by independent specialists and reviewed annually by Churchill Falls. These useful lives are Management's best estimate of the service lives of these assets. Changes to these lives could materially affect the amount of depreciation recorded.

(ii) Intangible Assets

Amounts recorded for amortization are based on the useful lives of Churchill Falls' assets. These useful lives are Management's best estimate of the service lives of these assets. Changes to these lives could materially affect the amount of amortization recorded.

(iii) Decommissioning Liabilities

Churchill Falls recognizes a liability for the fair value of the future expenditures required to settle obligations associated with the retirement of property, plant and equipment. Decommissioning liabilities are recorded as a liability at fair value, with a corresponding increase to property, plant and equipment. Accretion of decommissioning liabilities is included in the Statement of Profit and Comprehensive Income through net finance income. Differences between the recorded decommissioning liabilities and the actual decommissioning costs incurred are recorded as a gain or loss in the settlement period.

(iv) Employee Benefits

Churchill Falls provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a severance payment upon retirement. The expected cost of providing these other employee benefits is accounted for on an accrual basis, and has been actuarially determined using the projected unit credit method prorated on service, and Management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

(v) Revenue

In the absence of a signed agreement with Hydro-Québec regarding the Annual Energy Base (AEB) value, Churchill Falls and Hydro-Québec have been using the 2008 AEB value on an interim basis since September 1, 2016. Now that a final judgment has been received in the Declaratory Judgment Case, the Parties are in the process of finalizing the value of the final AEB that will establish the Continuous Energy for the term of the Renewed Power Contract.

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

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**4. CURRENT AND FUTURE CHANGES IN ACCOUNTING POLICIES**

The following is a list of standards/interpretations that have been issued and are effective for accounting periods commencing on or after January 1, 2020, as specified.

*IAS 1 – Presentation of Financial Statements<sup>1</sup> and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors<sup>1</sup> (Amendments to IAS 1 and IAS 8)*

*IAS 16 – Property, Plant and Equipment – Proceeds before Intended Use<sup>2</sup> (Amendments to IAS 16)*

*IAS 37 – Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Costs of Fulfilling a Contract<sup>2</sup> (Amendments to IAS 37)*

*IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current<sup>3</sup> (Amendments to IAS 15)*

<sup>1</sup>Effective for annual periods beginning on or after January 1, 2020.

<sup>2</sup>Effective for annual periods beginning on or after January 1, 2022.

<sup>3</sup>Effective for annual periods beginning on or after January 1, 2023.

**4.1 IAS 1 - Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (Amendments to IAS 1 and IAS 8)**

Effective January 1, 2020, Churchill Falls adopted the amendments to IAS 1 and IAS 8 to align the definition of 'material' across the standards and to clarify certain aspects of the definition and to include the concept of 'obscuring information'. The amendments are intended to improve the understanding of the existing requirements rather than to significantly impact Churchill Falls' materiality judgments.

**4.2 IAS 16 – Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16)**

The IASB issued amendments to IAS 16 relating to proceeds before intended use. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss. The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

These amendments are applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Churchill Falls early adopted the amendments to IAS 16 as of January 1, 2020, with retrospective application as of January 1, 2019. The application of these amendments to IAS 16 did not have any transitional impact on Churchill Falls' financial statements.

**4.3 Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Costs of Fulfilling a Contract (Amendments to IAS 37)**

The amendments to IAS 37 specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract, such as direct labour and materials, or an allocation of other costs that relate directly to fulfilling contracts, such as the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract. These amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments and are currently not applicable to Churchill Falls, however, may apply to future transactions.

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

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**4.4 Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)**

The IASB issued amendments to IAS 1 to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The classification is based on rights that are in existence at the end of the reporting period and specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. The amendments are applied retrospectively upon adoption.

**5. TRADE AND OTHER RECEIVABLES**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2020</b>	2019
Due from related parties	<b>18,290</b>	21,069
Other receivables	<b>2,760</b>	5,074
	<b>21,050</b>	26,143

Other receivables include HST and other miscellaneous amounts.

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2020</b>	2019
0-60 days	<b>20,835</b>	25,663
60+ days	<b>215</b>	480
	<b>21,050</b>	26,143

**6. INVENTORIES**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2020</b>	2019
Materials and other	<b>15,533</b>	14,106
Construction aggregates	<b>2,600</b>	2,701
Fuel	<b>87</b>	107
	<b>18,220</b>	16,914

The cost of inventories recognized as an expense during the year is \$1.9 million (2019 - \$2.1 million) and is included in operating costs in the Statement of Profit and Comprehensive Income.

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

**7. 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, 2019	863,395	298,334	231,994	15,258	1,408,981
Additions	(83)	(37)	(2)	65,033	64,911
Decommissioning liabilities and revisions	-	511	-	-	511
Other adjustments	2,851	480	-	-	3,331
Disposals	(2,349)	(1,374)	(1,990)	-	(5,713)
Transfers	25,657	24,622	8,313	(58,592)	-
<b>Balance at December 31, 2019</b>	<b>889,471</b>	<b>322,536</b>	<b>238,315</b>	<b>21,699</b>	<b>1,472,021</b>
<b>Additions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>63,414</b>	<b>63,414</b>
<b>Decommissioning liabilities and revisions</b>	<b>-</b>	<b>(280)</b>	<b>-</b>	<b>-</b>	<b>(280)</b>
<b>Other adjustments</b>	<b>-</b>	<b>(622)</b>	<b>(32)</b>	<b>-</b>	<b>(654)</b>
<b>Disposals</b>	<b>(474)</b>	<b>(3,729)</b>	<b>(348)</b>	<b>-</b>	<b>(4,551)</b>
<b>Transfers</b>	<b>3,800</b>	<b>23,895</b>	<b>8,608</b>	<b>(36,303)</b>	<b>-</b>
<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>Depreciation</b>					
Balance at January 1, 2019	439,417	136,950	101,384	-	677,751
Depreciation	13,358	5,793	9,149	-	28,300
Disposals	(1,998)	(1,134)	(1,692)	-	(4,824)
<b>Balance at December 31, 2019</b>	<b>450,777</b>	<b>141,609</b>	<b>108,841</b>	<b>-</b>	<b>701,227</b>
<b>Depreciation</b>	<b>14,191</b>	<b>6,585</b>	<b>9,538</b>	<b>-</b>	<b>30,314</b>
<b>Disposals</b>	<b>(393)</b>	<b>(2,116)</b>	<b>(282)</b>	<b>-</b>	<b>(2,791)</b>
<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>Carrying value</b>					
Balance at January 1, 2019	423,978	161,384	130,610	15,258	731,230
Balance at December 31, 2019	438,694	180,927	129,474	21,699	770,794
<b>Balance at December 31, 2020</b>	<b>428,222</b>	<b>195,722</b>	<b>128,446</b>	<b>48,810</b>	<b>801,200</b>

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

**8. INTANGIBLE ASSETS**

<i>(thousands of Canadian dollars)</i>	Computer Software	Construction in Progress	Total
Cost			
Balance at January 1, 2019	1,591	-	1,591
Additions	-	189	189
Transfers	46	(46)	-
Balance at December 31, 2019	1,637	143	1,780
<b>Additions</b>	<b>-</b>	<b>222</b>	<b>222</b>
<b>Transfers</b>	<b>365</b>	<b>(365)</b>	<b>-</b>
<b>Balance at December 31, 2020</b>	<b>2,002</b>	<b>-</b>	<b>2,002</b>
Amortization			
Balance at January 1, 2019	1,048	-	1,048
Amortization	151	-	151
Balance at December 31, 2019	1,199	-	1,199
<b>Amortization</b>	<b>142</b>	<b>-</b>	<b>142</b>
<b>Balance at December 31, 2020</b>	<b>1,341</b>	<b>-</b>	<b>1,341</b>
Carrying value			
Balance at January 1, 2019	543	-	543
Balance at December 31, 2019	438	143	581
<b>Balance at December 31, 2020</b>	<b>661</b>	<b>-</b>	<b>661</b>

**9. RESERVE FUND**

In 2007 Churchill Falls commenced the creation of a \$75.0 million segregated reserve fund pursuant to the terms of the Shareholders' Agreement to contribute towards the funding of capital expenditures related to Churchill Falls' existing facilities and their replacement. In December 2020, \$18.8 was invested (2019 - \$18.8 million) into the fund as part of the Shareholders' Agreement to reestablish the \$75.0 million withdrawn in recent years.

This fund must remain in place until the end of the Shareholders' Agreement in 2041. Any amounts removed to fund capital expenditures must be replaced. Reserve fund holdings consist of securities issued by the Government of Canada, various provinces of Canada and Schedule 1 and 2 Canadian Chartered Banks.

The reserve fund consists of the following:

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2020</b>	2019
Reserve fund, beginning of the year	<b>38,061</b>	18,789
Principal contributions	<b>18,750</b>	18,750
Earnings invested	-	23
Mark-to-market adjustment	<b>1,676</b>	499
Reserve fund, end of the year	<b>58,487</b>	38,061
Less: current portion	<b>(4,208)</b>	-
	<b>54,279</b>	38,061

Reserve fund contributions for the next two years are as follows:

<i>(thousands of Canadian dollars)</i>	<b>2021</b>	<b>2022</b>
Reserve fund contributions	9,375	9,375

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

**10. TRADE AND OTHER PAYABLES**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2020</b>	2019
Trade payables and accruals	<b>45,143</b>	28,610
Payables due to related parties	<b>1,107</b>	656
Other payables	<b>2,418</b>	6,999
	<b>48,668</b>	36,265

Other payables include HST and other miscellaneous amounts.

**11. DEFERRED CONTRIBUTIONS**

Churchill Falls has received contributions primarily from Transport Canada related to the airport. These contributions are deferred and amortized to other revenue over the life of the related item of property, plant and equipment.

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2020</b>	2019
Deferred contributions, beginning of the year	<b>9,876</b>	10,514
Additions	<b>38</b>	98
Amortization	<b>(691)</b>	(736)
Deferred contributions, end of the year	<b>9,223</b>	9,876
Less: current portion	<b>(690)</b>	(690)
	<b>8,533</b>	9,186

**12. DECOMMISSIONING LIABILITIES**

Churchill Falls has recognized liabilities associated with the disposal of Polychlorinated Biphenyls (PCB).

The reconciliation of the beginning and ending carrying amounts of decommissioning liabilities as at December 31, 2020 and 2019 are as follows:

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2020</b>	2019
Decommissioning liabilities, beginning of the year	<b>1,285</b>	784
Accretion	<b>32</b>	23
Liabilities settled	<b>(37)</b>	(33)
Revisions	<b>(280)</b>	511
Decommissioning liabilities, end of the year	<b>1,000</b>	1,285

The total estimated undiscounted cash flows required to settle the PCB obligations at December 31, 2020 are \$1.2 million (2019 - \$1.4 million). The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at the Company's credit adjusted risk free rate of 0.9% (2019 - 2.5%).

**13. EMPLOYEE FUTURE BENEFITS**

**13.1 Pension Plan**

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions for the year ended December 31, 2020 of \$2,405,000 (2019 - \$2,476,000) are expensed as incurred.

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

**13.2 Other Benefits**

Churchill Falls provides group life insurance and healthcare benefits on a cost shared basis to retired employees, and in certain cases, their surviving spouses, in addition to a retirement allowance. For the year ended December 31, 2020, cash payments to beneficiaries for its unfunded other employee future benefits were \$871,000 (2019 - \$606,000). An actuarial valuation was performed as at December 31, 2020.

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2020</b>	2019
Accrued benefit obligation		
Balance, beginning of the year	<b>34,684</b>	29,173
Current service cost	<b>1,578</b>	1,380
Past service cost	-	698
Interest cost	<b>1,146</b>	1,206
Transfers (a)	<b>91</b>	-
Benefits paid	<b>(871)</b>	(606)
Actuarial loss	<b>271</b>	2,833
<b>Balance, end of the year</b>	<b>36,899</b>	34,684

(a) When an employee transfers to a related party, the associated accrued benefit obligation is allocated to each respective party based on years of service.

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2020</b>	2019
Component of benefit cost		
Current service cost	<b>1,578</b>	1,380
Past service cost	-	698
Interest cost	<b>1,146</b>	1,206
<b>Total benefit expense for the year</b>	<b>2,724</b>	3,284

The significant actuarial assumptions used in measuring the accrued benefit obligations and benefit expenses are as follows:

	<b>2020</b>	2019
Discount rate - benefit cost	<b>3.20%</b>	3.90%
Discount rate - accrued benefit obligation	<b>2.70%</b>	3.20%
Rate of compensation increase	<b>3.50%</b>	3.50%

Assumed healthcare trend rates:

	<b>2020</b>	2019
Initial healthcare expense trend rate	<b>5.64%</b>	5.85%
Cost trend decline to	<b>3.60%</b>	3.60%
Current rate 5.64%, reducing linearly to 3.6% in 2040 and thereafter		

A 1% change in assumed healthcare trend rates would have had the following effects:

<i>Increase (thousands of Canadian dollars)</i>	<b>2020</b>	2019
Current service and interest cost	<b>552</b>	513
Accrued benefit obligation	<b>6,228</b>	5,818
<i>Decrease (thousands of Canadian dollars)</i>	<b>2020</b>	2019
Current service and interest cost	<b>(399)</b>	(372)
Accrued benefit obligation	<b>(4,707)</b>	(4,415)

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

**14. SHAREHOLDERS' EQUITY**

**14.1 Share Capital**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2020</b>	2019
Common shares without nominal or par value		
Authorized - unlimited		
Issued, fully paid and outstanding - 8,759,999	<b>82,900</b>	82,900
Preferred shares without nominal or par value		
Authorized - 3		
Issued, fully paid and outstanding - 3	-	-

Additional shares cannot be issued without the approval of a majority of the directors on the Board of Directors, including at least one director nominated by Hydro and one director nominated by Hydro-Québec.

The preferred shares are divided into three classes, one of each has been issued, and the dividends thereon, which rank ahead of dividends on common shares, are as follows:

The Class A Cumulative Preferred Shareholder is entitled to dividend payments calculated as the amount equal to the income taxes which would have been received by the Province had Churchill Falls continued to be a taxable corporation.

The Class B and Class C Redeemable Cumulative Preferred Shareholders are no longer entitled to receive dividends.

**14.2 Contributed Capital**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2020</b>	2019
Twin Falls Power Corporation Limited (Twin Falls)	<b>55</b>	55
Labrador Transmission Corporation (Labrador Transco)	<b>494</b>	494
Churchill Falls (Labrador) Corporation Trust (the Trust)	<b>7,646</b>	7,646
Total contributed capital	<b>8,195</b>	8,195

The Trust contributed capital balance will remain in place with the final decision received on the Good faith case, all costs now have been recovered from the Government of Newfoundland and Labrador.

**14.3 Dividends Paid and Proposed**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2020</b>	2019
Declared during the year		
Final preferred dividend for prior year	<b>700</b>	608
Interim preferred dividend for current year	<b>6,931</b>	7,017
	<b>7,631</b>	7,625
Proposed for approval, not recognized as payable at December 31		
Final dividend underpayment for current year	<b>669</b>	700

During 2020, Churchill Falls did not pay any common dividends (2019 - \$nil).

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

**15. NET FINANCE INCOME**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2020</b>	2019
Finance income		
Interest on reserve fund	<b>616</b>	270
Interest on investments	-	435
Bank interest income	<b>1,281</b>	1,758
	<b>1,897</b>	2,463
Finance expense		
Accretion of decommissioning liability	<b>32</b>	23
Other interest expense	<b>44</b>	43
	<b>76</b>	66
Net finance income	<b>1,821</b>	2,397

**16. OPERATING COSTS**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2020</b>	2019
Salaries and benefits	<b>40,318</b>	40,147
Maintenance and materials	<b>9,745</b>	11,237
Insurance	<b>3,653</b>	3,236
Professional services	<b>2,567</b>	2,578
Other operating costs	<b>2,016</b>	2,144
	<b>58,299</b>	59,342

**17. OTHER EXPENSE**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2020</b>	2019
Rental and royalty	<b>6,546</b>	6,889
Loss on disposal of property, plant and equipment	<b>1,760</b>	687
Other asset disposal costs	<b>2</b>	-
Realized foreign exchange (gain) loss	<b>8</b>	(2)
Unrealized foreign exchange gain	<b>(4)</b>	(3)
Other	-	(419)
	<b>8,312</b>	7,152

**18. FINANCIAL INSTRUMENTS**

**18.1 Fair Value**

The estimated fair values of financial instruments as at December 31, 2020 and 2019 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.

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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 year ended December 31, 2020 and 2019.

As at December 31, 2020 and 2019, Churchill Falls did not have any Level 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		December 31, 2020		December 31, 2019	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Reserve fund	2	58,487	58,487	38,061	38,061

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.

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.

**18.2 Risk Management**

Churchill Falls is exposed to certain credit, liquidity and market risks through its operating, financing and investing activities. Financial risk is managed in accordance with a Board approved policy, which outlines the objectives and strategies for the management of financial risk, including the use of derivative contracts. Permitted financial risk management strategies are aimed at minimizing the volatility of Churchill Falls' expected future cash flows.

Credit Risk

Expected future cash flows are exposed to credit risk through operating activities, primarily due to the potential for non-performance by customers, and through financing activities, based on the risk of non-performance by counterparties to financial instruments. The degree of exposure on cash, accounts receivable, the reserve fund and energy sales depends on the financial capacity and stability of those customers and counterparties. The maximum exposure to credit risk on these financial instruments is represented by their carrying values on the Statement of Financial Position at the reporting date.

Credit exposure on energy sales is limited, as Churchill Falls' two main customers Hydro and Hydro-Québec are investment grade utilities. As at December 31, 2020, there was no allowance for doubtful accounts included in trade and other receivables (2019 - \$nil).

Credit risk on cash is limited, as Churchill Falls' cash deposits are held by a Schedule 1 Canadian Chartered bank with a rating of A+ (Standard and Poor's).

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Credit exposure on the reserve fund is mitigated by adhering to an investment policy which restricts the holdings to long-term debt instruments issued or guaranteed by the Government of Canada or any province of Canada. Investment in the long-term debt instruments of Canadian banks are also permitted, provided the bank is rated A or higher by Standard and Poor's. With the exception of Government of Canada, holdings of any one issuer are limited to 10% of the total principal amount of the portfolio. The following credit risk table provides information on credit exposures according to issuer type and credit rating for the reserve fund:

	Issuer Credit Rating	Fair Value of Portfolio (%)	Issuer Credit Rating	Fair Value of Portfolio (%)
	2020		2019	
Provincial Governments	A- to A+	40.58%	A- to A+	40.50%
Provincially owned utilities	AA- to AAA-	8.26%	AA- to AAA-	8.93%
Provincially owned utilities	A- to A+	6.00%	A- to A+	4.54%
Schedule 1 Canadian banks	AA- to AAA-	18.53%	AA- to AAA-	12.17%
Schedule 1 Canadian banks	A- to A+	26.63%	A- to A+	33.86%
		100%		100%

### Liquidity Risk

Churchill Falls is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. Churchill Falls manages this risk by maintaining borrowing facilities, a minimum cash balance of \$23.0 million (2019 - \$23.0 million) and business interruption insurance. Short-term liquidity is provided through cash on hand, funds from operations and a \$10.0 million (2019 - \$10.0 million) unsecured credit facility. Long-term liquidity risk is managed by maintenance of the reserve fund in accordance with the June 1999 shareholders' agreement and a dividend management policy that meets long-term liquidity requirements associated with Churchill Falls' capital expenditure program.

The following are the contractual maturities of Churchill Falls' financial liabilities, including principal and interest, as at December 31, 2020.

<i>(thousands of Canadian dollars)</i>	< 1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	48,668	-	-	-	48,668
Rental and royalty payable	6,546	-	-	-	6,546
	55,214	-	-	-	55,214

### Market Risk

Churchill Falls is exposed to possible market price movements that could impact expected future cash flow and the carrying value of certain financial assets and liabilities.

### Interest Rates

Changes in prevailing interest rates will impact the fair value of financial assets and liabilities classified as FVTOCI, which includes the reserve fund. Expected future cash flows from these assets and liabilities are also impacted in certain circumstances, such as when reserve fund securities are sold prior to maturity.

	Other Comprehensive Income	
	0.5% Decrease	0.5% Increase
<i>(thousands of Canadian dollars)</i>		
Interest on reserve fund	855	(838)

### Foreign Currency and Commodity Exposure

Churchill Falls does not hold any financial instrument whose value would vary due to changes in a commodity price. Cash flow exposure to commodity price and foreign exchange risk arises primarily through investing activities, most notably US dollar denominated capital expenditures, and regular procurement activities. The exposure, however, is considered immaterial.

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**19. 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:

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	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
The Trust	Churchill Falls (Labrador) Corporation Trust was created by the Province with Churchill Falls as the beneficiary

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.

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

<i>As at December 31 (thousands of Canadian dollars)</i>	Related party	2020	2019
<b>Trade and other receivables:</b>			
Energy sales	Hydro-Québec	4,921	5,644
Guaranteed winter availability	Hydro-Québec	7,763	7,532
Energy sales and other	Hydro	4,033	3,743
Engineering, technical, management and administrative services	Other	2	14
Engineering, technical, management and administrative services	Hydro-Québec	1,571	4,136
<b>Trade and other payables:</b>			
Engineering, technical, management and administrative services	Other	1,107	656
<b>Rental and royalty payable</b>			
	The Province	6,546	6,883
<i>For the year ended December 31 (thousands of Canadian dollars)</i>		<b>2020</b>	<b>2019</b>
<b>Energy sales:</b>			
Long-term power contract	Hydro-Québec	57,993	57,887
Long-term power contracts	Hydro	48,248	47,153
<b>Guaranteed winter availability:</b>			
Guaranteed winter availability contract	Hydro-Québec	36,990	37,485
<b>Operating (recovery) costs:</b>			
Engineering, technical, management and administrative services	Hydro-Québec	(2,148)	(6,389)
Engineering, technical, management and administrative services	Hydro	481	(59)
Rental and royalty expense	The Province	6,546	6,889
Engineering, technical, management and administrative services	Other	2,517	3,715
<b>Other income:</b>			
Gain on disposal of property, plant and equipment	Other	-	24

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**19.1 Key Management Personnel**

Compensation for key management personnel, which Churchill Falls defines as its executives who have the primary authority and responsibility in planning, directing and controlling the activities of the entity, includes compensation for senior executives. Salaries and employee benefits include base salaries, performance contract payments, vehicle allowances and contributions to employee benefit plans. Post-employment benefits include contributions to the Province's Public Service Pension Plan.

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2020</b>	2019
Salaries and employee benefits	<b>361</b>	346
Post-employment benefits	<b>37</b>	33
	<b>398</b>	379

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**20. COMMITMENTS AND CONTINGENCIES**

- (a) Outstanding commitments for capital projects total approximately \$32.1 million as at December 31, 2020 (December 31, 2019 - \$29.8 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.

**21. CAPITAL MANAGEMENT**

Churchill Falls' objective when managing capital is to maintain its ability to continue as a going concern. Churchill Falls' requirements for capital in the future are expected to remain consistent, in line with the aging of the plant and related infrastructure and the execution of the long-term asset management plan. The focus of the capital management policy is to provide flexibility to ensure cash continues to be available to satisfy capital requirements. Managing the level of common dividend payments is a key aspect of ensuring the availability of funding to maintain the plant and infrastructure.

At present, the capital position of Churchill Falls is comprised entirely of equity capital (issued capital, shareholder contributions, reserves and retained earnings). The capital structure is adjusted through the amount of dividends paid to shareholders.

Churchill Falls maintains a \$10.0 million Canadian or US equivalent unsecured operating credit facility with its banker. Advances may take the form of a Prime Rate advance or the issuance of a Bankers' Acceptance (BA) with interest calculated at the Prime Rate or prevailing Government BA Fee. The facility provides coverage for overdrafts on Churchill Falls' bank accounts, with interest calculated at the Prime Rate. There were no amounts drawn on this facility as at December 31, 2020 (2019 - \$nil).

Churchill Falls has issued three irrevocable letters of credit totalling \$2.0 million (2019 – \$2.0 million), \$1.0 million of which does not impact the borrowing limit of the operating credit facility (2019 - \$1.0 million). The letters of credit ensure satisfactory management of its waste management system and compliance with a certificate of approval for the transportation of special and hazardous wastes, granted by the Provincial Department of Environment and Conservation.

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**22. SUPPLEMENTARY CASH FLOW INFORMATION**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2020</b>	2019
Trade and other receivables	<b>5,075</b>	(1,212)
Inventories	<b>(1,306)</b>	(672)
Prepayments	<b>(517)</b>	(230)
Trade and other payables	<b>13,057</b>	3,613
Rental and royalty payable	<b>(337)</b>	209
<b>Change in non-cash working capital balances</b>	<b>15,972</b>	1,708
Related to:		
Operating activities	<b>11,629</b>	2,631
Investing activities	<b>4,343</b>	(923)
	<b>15,972</b>	1,708