

CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED
CONDENSED INTERIM FINANCIAL STATEMENTS
September 30, 2014
(Unaudited)

DIRECTORS

EDMUND J. MARTIN
President and Chief Executive Officer
Nalcor Energy

JIM KEATING
Vice-President
Nalcor Energy – Oil and Gas Inc.

MARIE-JOSE NADEAU
Executive Vice-President, Corporate Affairs
and Secretary General
Hydro-Quebec

RICHARD CACCHIONE
President
Hydro-Quebec Production

GERALD SHORTALL
Chartered Accountant
Corporate Director

KEN MARSHALL
President, Atlantic Region
Rogers Communications Inc.

ROBERT WARR
Managing Director
Nor-Lab Limited

OFFICERS

EDMUND J. MARTIN
President and Chief Executive Officer

DERRICK F. STURGE
Vice President, Finance
and Chief Financial Officer

WAYNE D. CHAMBERLAIN
General Counsel and Corporate Secretary

PETER A. HICKMAN
Assistant Corporate Secretary

JOHN MacISAAC
Vice President, Project Execution
and Technical Services

SAM ROSE
General Manager

SCOTT PELLEY
Corporate Treasurer

ROBERT HULL
General Manager, Finance

KEN MARSHALL
President, Atlantic Region
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CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED
STATEMENT OF FINANCIAL POSITION
(Unaudited)

<i>As at (thousands of Canadian dollars)</i>	Notes	September 30 2014	December 31 2013	September 30 2013
ASSETS				
Current assets				
Cash and cash equivalents		11,726	17,139	10,816
Short-term investments		-	-	20,064
Trade and other receivables		11,026	19,544	10,132
Prepayments		2,583	1,756	2,382
Inventories		17,655	17,055	17,042
Total current assets		42,990	55,494	60,436
Non-current assets				
Property, plant and equipment	3	574,906	553,746	541,130
Investments in joint ventures	4	2,150	1,682	1,540
Long-term related party receivable	12	-	2,342	448
Reserve fund		75,580	76,748	76,928
Total assets		695,626	690,012	680,482
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Trade and other payables		24,310	24,383	29,937
Rental and royalty payable		2,695	5,594	3,743
Current portion of deferred contributions	5	783	834	846
Total current liabilities		27,788	30,811	34,526
Non-current liabilities				
Decommissioning liabilities	6	1,078	1,037	1,024
Employee future benefits	7	28,254	26,956	29,195
Long-term related party payable	12	3,243	2,502	2,878
Deferred contributions	5	13,330	13,866	13,805
Total liabilities		73,693	75,172	81,428
Shareholders' equity				
Issued capital		82,900	82,900	82,900
Shareholder contributions	8	4,721	4,605	3,358
Reserves		(6,368)	(6,339)	(9,233)
Retained earnings		540,680	533,674	522,029
Total shareholders' equity		621,933	614,840	599,054
Total liabilities and shareholders' equity		695,626	690,012	680,482

Commitments and contingencies (Note 13)

See accompanying notes

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

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Notes	Three Months Ended		Nine Months Ended	
		2014	2013	2014	2013
Power sales		12,457	16,623	54,166	59,608
Guaranteed winter availability		-	-	19,104	21,060
Rental of rights and facilities to Twin Falls		183	184	550	551
Other revenue	5	196	194	587	634
Revenue		12,836	17,001	74,407	81,853
Operating costs	9	(14,967)	(17,010)	(46,654)	(47,459)
Depreciation	3	(4,804)	(4,329)	(14,053)	(12,991)
Net finance income and expense	10	404	555	1,454	1,699
Other income and expenses		(1,826)	(557)	(2,630)	(557)
Share of profit of joint venture	4	148	161	468	491
(Loss) profit for the period		(8,209)	(4,179)	12,992	23,036
Other comprehensive (loss) income for the period		(252)	(342)	(29)	(665)
Total comprehensive (loss) income for the period		(8,461)	(4,521)	12,963	22,371

See accompanying notes

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

<i>(thousands of Canadian dollars)</i>	Notes	Issued Capital	Shareholder Contributions	Fair Value Reserve	Employee Benefits Reserve	Retained Earnings	Total
Balance at January 1, 2014		82,900	4,605	1,248	(7,587)	533,674	614,840
Profit for the period		-	-	-	-	12,992	12,992
Other comprehensive income							
Net change in fair value of							
available for sale financial instruments		-	-	319	-	-	319
Net change in fair value of financial							
instruments reclassified to profit or loss		-	-	(348)	-	-	(348)
Total comprehensive income for the period		-	-	(29)	-	12,992	12,963
Capital contributions	8	-	116	-	-	-	116
Preferred dividends	8	-	-	-	-	(5,986)	(5,986)
Balance at September 30, 2014		82,900	4,721	1,219	(7,587)	540,680	621,933
Balance at January 1, 2013		82,900	2,019	1,779	(10,347)	506,453	582,804
Profit for the period		-	-	-	-	23,036	23,036
Other comprehensive income							
Net change in fair value of							
available for sale financial instruments		-	-	(216)	-	-	(216)
Net change in fair value of financial							
instruments reclassified to profit or loss		-	-	(449)	-	-	(449)
Total comprehensive income for the period		-	-	(665)	-	23,036	22,371
Capital contributions	8	-	1,339	-	-	-	1,339
Preferred dividends	8	-	-	-	-	(7,460)	(7,460)
Balance at September 30, 2013		82,900	3,358	1,114	(10,347)	522,029	599,054

See accompanying notes

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

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Notes	Three Months Ended		Nine Months Ended	
		2014	2013	2014	2013
Cash provided by (used in)					
Operating activities					
(Loss) profit for the period		(8,209)	(4,179)	12,992	23,036
Adjusted for items not involving a cash flow:					
Depreciation	3	4,804	4,329	14,053	12,991
Amortization of deferred contributions	5	(196)	(194)	(587)	(634)
Employee benefits		352	308	1,298	1,177
Loss on disposal of property, plant and equipment		1,467	554	2,014	554
Accretion of decommissioning liability	6	14	13	41	39
Share of profit of joint venture	4	(148)	(161)	(468)	(491)
		(1,916)	670	29,343	36,672
Changes in non-cash working capital balances	14	(4,808)	5,611	4,119	18,781
Net cash from operating activities		(6,724)	6,281	33,462	55,453
Investing activities					
Additions to property, plant and equipment	3	(14,266)	(18,951)	(37,231)	(31,368)
Decrease (increase) in short-term investments		18,043	(2,546)	-	(20,064)
Decrease (increase) in reserve fund		762	(341)	1,139	(276)
Proceeds on disposition of property, plant and equipment		-	9	4	9
Net cash from investing activities		4,539	(21,829)	(36,088)	(51,699)
Financing activities					
Change in long-term related party receivable/payable		4,993	2,110	3,083	(685)
Contributed capital	8	116	621	116	1,339
Preferred dividends	8	(1,505)	(2,228)	(5,986)	(7,460)
Net cash from financing activities		3,604	503	(2,787)	(6,806)
Net increase (decrease) in cash		1,419	(15,045)	(5,413)	(3,052)
Cash and cash equivalents at beginning of period		10,307	25,861	17,139	13,868
Cash and cash equivalents at end of period		11,726	10,816	11,726	10,816

Supplementary cash flow information (Note 14)

See accompanying notes

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

1. NATURE AND DESCRIPTION OF THE COMPANY

Churchill Falls (Labrador) Corporation Limited, operating as Nalcor Energy - Churchill Falls (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 (the Lease) as amended covering the water power potential of the Upper Churchill watershed. Energy from Churchill Falls is primarily provided to three customers: Hydro-Quebec, Newfoundland and Labrador Hydro (Hydro) and Twin Falls Power Corporation Limited (Twin Falls). Churchill Falls is 65.8% owned by Hydro whose parent company is Nalcor Energy. The remaining 34.2% is owned by Hydro-Quebec. The head office for Churchill Falls is located in St. John's, Newfoundland and Labrador.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance and Basis of Measurement

These condensed interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting.

These condensed interim financial statements have been prepared using accounting policies consistent with those used in the preparation of the Annual Audited Financial Statements for the year ended December 31, 2013. These condensed interim financial statements do not include all of the disclosures normally found in Churchill Falls' Annual Audited Financial Statements and should be read in conjunction with the Annual Audited Financial Statements. Interim results will fluctuate due to the seasonal nature of electricity demand and water flows.

These financial statements have been prepared on a historical cost basis, except for available for sale financial assets which have been measured at fair value. The condensed interim financial statements are presented in Canadian dollars and all values rounded to the nearest thousand, except when otherwise noted.

3. PROPERTY, PLANT AND EQUIPMENT

<i>(thousands of Canadian dollars)</i>	Hydroelectric Generation Plant	Transmission and Terminals	Service Facilities and Other	Construction in Progress	Total
Cost					
Balance at January 1, 2013	732,614	210,214	143,144	15,631	1,101,603
Additions	-	-	-	49,358	49,358
Disposals	(2,746)	(791)	(908)	(118)	(4,563)
Transfers	10,993	15,717	25,249	(51,959)	-
Balance at December 31, 2013	740,861	225,140	167,485	12,912	1,146,398
Additions	319	-	687	36,225	37,231
Disposals	(2,479)	(504)	(392)	-	(3,375)
Transfers	141	(116)	(25)	(1,005)	(1,005)
Balance at September 30, 2014	738,842	224,520	167,755	48,132	1,179,249

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

3. PROPERTY, PLANT AND EQUIPMENT (cont'd.)

<i>(thousands of Canadian dollars)</i>	Hydroelectric Generation Plant	Transmission and Terminals	Service Facilities and Other	Construction in Progress	Total
Depreciation and impairment					
Balance at January 1, 2013	390,738	122,811	64,738	-	578,287
Depreciation expense	8,826	3,010	6,131	-	17,967
Disposals	(2,405)	(498)	(699)	-	(3,602)
Transfers	5	(3)	(2)	-	-
Balance at December 31, 2013	397,164	125,320	70,168	-	592,652
Depreciation expense	6,863	1,901	5,289	-	14,053
Disposals	(1,675)	(379)	(308)	-	(2,362)
Balance at September 30, 2014	402,352	126,842	75,149	-	604,343
Carrying value					
Balance at January 1, 2013	341,876	87,403	78,406	15,631	523,316
Balance at December 31, 2013	343,697	99,820	97,317	12,912	553,746
Balance at September 30, 2014	336,490	97,678	92,606	48,132	574,906

4. INVESTMENTS IN JOINT VENTURES

Churchill Falls holds a 33.33% equity shareholding and majority voting power in Twin Falls. 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 in the reporting period.

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

<i>(thousands of Canadian dollars)</i>	Nine Months Ended	
	September 30 2014	September 30 2013
Total assets	10,120	6,613
Total liabilities	3,670	1,992
Net assets	6,450	4,621
Churchill Falls' share of net assets	2,150	1,540
Total revenue	3,678	3,650
Total profit	1,403	1,473
Churchill Falls' share of profit	468	491

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

5. 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>(thousands of Canadian dollars)</i>	September 30	December 31
	2014	2013
Deferred contributions at beginning of period	14,700	15,285
Additions	-	245
Amortization	(587)	(830)
	14,113	14,700
Less: current portion	(783)	(834)
Deferred contributions at end of period	13,330	13,866

6. DECOMMISSIONING LIABILITIES

Churchill Falls has recognized liabilities associated with the disposal of polychlorinated biphenyls (PCB). The reconciliation of the beginning and ending carrying amount of decommissioning liabilities for the periods ended September, 2014 and December, 2013 is as follows:

<i>(thousands of Canadian dollars)</i>	September 30	December 31
	2014	2013
Decommissioning liabilities at beginning of period	1,037	985
Accretion	41	52
Decommissioning liabilities at end of period	1,078	1,037

7. EMPLOYEE FUTURE BENEFITS

7.1 Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions of \$1,820,000 (2013- \$1,114,000) are expensed as incurred.

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

7. EMPLOYEE FUTURE BENEFITS (cont'd.)

7.2 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 2014, cash payments to beneficiaries for its unfunded other employee benefits plans were \$598,000 (2013 - \$689,000). An actuarial valuation was performed as at December 31, 2012 with an extrapolation to December 31, 2013. The next actuarial valuation will be performed at December 31, 2015.

<i>(thousands of Canadian dollars)</i>	September 30 2014	December 31 2013
Accrued benefit obligation		
Balance at beginning of year	26,956	28,018
Current service cost	857	1,328
Interest cost	1,039	1,159
Benefits paid	(598)	(789)
Balance at end of year	28,254	26,956

<i>(thousands of Canadian dollars)</i>	Three Months Ended		Nine Months Ended	
	September 30 2014	September 30 2013	September 30 2014	September 30 2013
Component of benefit cost				
Current service cost	285	332	857	996
Interest cost	346	290	1,039	870
Benefit expense	631	622	1,896	1,866

8. SHAREHOLDERS' EQUITY

8.1 Shareholder Contributions

<i>(thousands of Canadian dollars)</i>	September 30 2014	December 31 2013
Total shareholder contributions	4,721	4,605

During 2014, the Churchill Falls (Labrador) Corporation Trust (the Trust) made capital contributions of \$116,000 (2013 - \$1,339,000).

8.2 Dividends Paid and Proposed

<i>(thousands of Canadian dollars)</i>	Nine Months Ended	
	September 30 2014	September 30 2013
Declared during the year		
Final preferred dividend for prior period: \$573 per share (2013 - \$921)	573	921
Interim preferred dividend for current period: \$5,413 per share (2013 - \$6,539)	5,413	6,539
	5,986	7,460

During 2014, Churchill Falls paid no common dividends (2013 - \$Nil).

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

9. OPERATING COSTS

	Three Months Ended		Nine Months Ended	
	September 30 2014	September 30 2013	September 30 2014	September 30 2013
<i>(thousands of Canadian dollars)</i>				
Salaries and benefits	10,614	10,756	28,582	28,077
Rental and royalty expense	(368)	114	2,697	3,739
Other operating costs	(109)	1,727	3,883	5,896
Maintenance and materials	3,482	2,995	7,739	6,712
Professional services	1,348	1,418	3,753	3,035
	14,967	17,010	46,654	47,459

10. NET FINANCE INCOME AND EXPENSE

	Three Months Ended		Nine Months Ended	
	September 30 2014	September 30 2013	September 30 2014	September 30 2013
<i>(thousands of Canadian dollars)</i>				
Finance income				
Interest on short-term investments	37	81	126	169
Interest on reserve fund	540	556	1,608	1,685
Other interest income	3	23	14	108
	580	660	1,748	1,962
Finance costs				
Net interest on long-term related party payable/receivable	(167)	(75)	(272)	(195)
Accretion of decommissioning liability	(14)	(13)	(41)	(39)
Other interest expense	5	(17)	19	(29)
	(176)	(105)	(294)	(263)
Total	404	555	1,454	1,699

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

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value

The estimated fair values of financial instruments as at September 30, 2014 and December 31, 2013 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 financial instruments, 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, the Company 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 period ended September 30, 2014 and the year ended December 31, 2013.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		September 30, 2014		December 31, 2013	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Cash and cash equivalents	1	11,726	11,726	17,139	17,139
Long-term related party receivable	2	-	-	2,342	2,397
Trade and other receivables	1	11,026	11,026	19,544	19,544
Reserve fund	2	75,580	75,579	76,748	76,748
Financial liabilities					
Trade and other payables	1	24,310	24,310	24,383	24,383
Rental and royalty payable	1	2,695	2,695	5,594	5,594
Long-term related party payable	2	3,243	3,371	2,502	2,656

The fair value of cash and cash equivalents; long-term related party receivable; trade and other receivables; trade and other payables; and rental and royalty payable approximates their carrying values due to their short-term maturity.

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

12. RELATED PARTY TRANSACTIONS

Churchill Falls enters into various transactions with its parents, subsidiary 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
NL Hydro (Hydro)	65.8% shareholder of Churchill Falls
Hydro-Quebec	34.2% shareholder of Churchill Falls
Nalcor Energy	100% shareholder of Hydro
The Province	100% shareholder of Nalcor Energy
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

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

	Hydro- Quebec	Hydro	Other Related Parties	Total
<i>(thousands of Canadian dollars)</i>				
Nine Months Ended September 30, 2014				
Power sales	48,887	4,543	736	54,166
Guaranteed winter availability	19,104	-	-	19,104
Rental of rights and facilities to Twin Falls	-	-	550	550
Operating costs	-	(2,209)	(3,872)	(6,081)
Finance costs	(273)	-	-	(273)
Trade and other receivables	5,997	381	1,833	8,211
Trade and other payables	1,921	-	1,184	3,105
Rental and royalty payable	-	-	2,695	2,695
Long-term related party payable	3,243	-	-	3,243
<i>(thousands of Canadian dollars)</i>				
Nine Months Ended September 30, 2013				
Power sales	54,319	4,546	743	59,608
Guaranteed winter availability	21,060	-	-	21,060
Rental of rights and facilities to Twin Falls	-	-	551	551
Operating costs	-	(2,579)	(4,935)	(7,514)
Finance costs	(195)	-	-	(195)
Trade and other receivables	6,157	718	1,526	8,401
Long-term related party receivable	448	-	-	448
Rental and royalty payable	-	-	3,743	3,743
Long-term related party payable	2,878	-	-	2,878

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

13. COMMITMENTS AND CONTINGENCIES

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, is not expected to materially affect the financial position of Churchill Falls.

14. SUPPLEMENTARY CASH FLOW INFORMATION

	Three Months Ended		Nine Months Ended	
	September 30	September 30	September 30	September 30
<i>(thousands of Canadian dollars)</i>	2014	2013	2014	2013
Trade and other receivables	(1,648)	(1,340)	8,518	17,218
Prepayments	(2,059)	(1,989)	(827)	(911)
Inventories	(260)	(40)	(600)	(1,135)
Trade and other payables	(473)	8,867	(73)	5,992
Rental and royalty payable	(368)	113	(2,899)	(2,383)
Changes in non-cash working capital balances	(4,808)	5,611	4,119	18,781
Interest received	1,394	554	2,946	1,999
Interest paid	65	100	217	301