

CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED
CONDENSED INTERIM FINANCIAL STATEMENTS
March 31, 2015
(Unaudited)

DIRECTORS

KEN MARSHALL
President – Atlantic Region
Rogers Communications

MARIE-JOSE NADEAU
Executive Vice-President
Corporate Affairs and Secretary General
Chair - World Energy Council

RICHARD CACCHIONE
President
Hydro Québec Production

EDMUND MARTIN
President and Chief Executive Officer

ROBERT WARR
Managing Director
Nor-Lab Limited

GERALD SHORTALL
Chartered Accountant
Corporate Director

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

OFFICERS

KEN MARSHALL
Chairperson

EDMUND MARTIN
President and Chief Executive Officer

DERRICK STURGE
Vice President, Finance and Chief Financial Officer

JOHN MACISAAC
Vice President, Project Execution and Technical Services

SAM ROSE
General Manager

WAYNE CHAMBERLAIN
General Counsel and Corporate Secretary

PETER HICKMAN
Assistant Corporate Secretary

ROBERT HULL
General Manager, Finance

SCOTT PELLEY
Corporate Treasurer

HEAD AND CORPORATE OFFICE

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

<i>As at (thousands of Canadian dollars)</i>	Notes	March 31 2015	December 31 2014
ASSETS			
Current assets			
Cash and cash equivalents		24,373	26,611
Short-term investments		27,507	5,007
Trade and other receivables		21,643	21,307
Inventories		17,849	17,686
Prepayments		1,347	1,883
Total current assets		92,719	72,494
Non-current assets			
Property, plant and equipment	3	582,043	583,540
Investment in joint venture	4	2,228	2,242
Reserve fund		52,496	51,999
Long-term related party receivable		5,244	7
Total assets		734,730	710,282
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade and other payables		17,890	25,212
Rental and royalty payable		3,939	4,724
Current portion of deferred contributions	5	783	783
Total current liabilities		22,612	30,719
Non-current liabilities			
Deferred contributions	5	12,939	13,134
Decommissioning liabilities	6	1,209	1,197
Long-term related party payable		626	1,120
Employee benefits liability	7	33,497	33,102
Total liabilities		70,883	79,272
Shareholders' equity			
Share capital		82,900	82,900
Shareholder contributions	8	4,923	4,844
Reserves		(10,435)	(10,911)
Retained earnings		586,459	554,177
Total shareholders' equity		663,847	631,010
Total liabilities and shareholders' equity		734,730	710,282

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 March 31 (thousands of Canadian dollars)</i>	Notes	Three months ended	
		2015	2014
Power sales		37,242	25,939
Guaranteed winter availability		21,758	19,103
Rental of rights and facilities to Twin Falls		-	184
Other revenue	5	195	196
Revenue		59,195	45,422
Operating costs	9	(18,729)	(17,467)
Depreciation	3	(5,070)	(4,867)
Net finance income and expense	10	301	499
Other income and expense		(11)	(16)
Share of (loss) profit of joint venture	4	(14)	164
Profit for the period		35,672	23,735
Other comprehensive income for the period		476	261
Total comprehensive income for the period		36,148	23,996

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 Benefit Reserve	Retained Earnings	Total
Balance at January 1, 2015		82,900	4,844	953	(11,864)	554,177	631,010
Profit for the period		-	-	-	-	35,672	35,672
Other comprehensive income							
Net change in fair value of available for sale financial instruments		-	-	497	-	-	497
Net change in fair value of financial instruments reclassified to profit or loss		-	-	(21)	-	-	(21)
Total comprehensive income for the period		-	-	476	-	35,672	36,148
Capital contributions	8	-	79	-	-	-	79
Preferred dividends	8	-	-	-	-	(3,390)	(3,390)
Balance at March 31, 2015		82,900	4,923	1,429	(11,864)	586,459	663,847
Balance at January 1, 2014		82,900	4,605	1,248	(7,587)	533,674	614,840
Profit for the period		-	-	-	-	23,735	23,735
Other comprehensive income							
Net change in fair value of available for sale financial instruments		-	-	376	-	-	376
Net change in fair value of financial instruments reclassified to profit or loss		-	-	(115)	-	-	(115)
Total comprehensive income for the period		-	-	261	-	23,735	23,996
Capital contributions	8	-	-	-	-	-	-
Preferred dividends	8	-	-	-	-	(2,493)	(2,493)
Balance at March 31, 2014		82,900	4,605	1,509	(7,587)	554,916	636,343

See accompanying notes

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

		Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Notes	2015	2014
Cash provided from (used in)			
Operating activities			
Profit for the period		35,672	23,735
Adjusted for items not involving a cash flow:			
Depreciation	3	5,070	4,867
Amortization of deferred contributions	5	(195)	(196)
Employee benefits		395	410
Accretion of decommissioning liability	6	12	13
Loss on disposal of property, plant and equipment		14	16
Share of profit of joint venture	4	14	(164)
		40,982	28,681
Change in non-cash working capital balances	14	(8,070)	(5,837)
Net cash provided from operating activities		32,912	22,844
Investing activities			
Additions to property, plant and equipment	3	(3,587)	(6,924)
Increase in short-term investments		(22,500)	(16,006)
(Increase) decrease in reserve fund		(21)	366
Proceeds on disposal of property, plant and equipment		-	4
Net cash used in investing activities		(26,108)	(22,560)
Financing activities			
Change in long-term related party receivable		(5,731)	(3,945)
Increase in contributed capital	8	79	-
Preferred dividends	8	(3,390)	(2,493)
Net cash used in financing activities		(9,042)	(6,438)
Net decrease in cash and cash equivalents		(2,238)	(6,154)
Cash and cash equivalents, beginning of period		26,611	17,139
Cash and cash equivalents, end of period		24,373	10,985

Supplementary cash flow information (Note 14)

See accompanying notes

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

1. DESCRIPTION OF BUSINESS

Nalcor Energy - 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 (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. 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.

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 and have been prepared using the accounting policies, critical accounting judgments and key estimates consistent with those used in the preparation of the annual audited financial statements for the year ended December 31, 2014.

These condensed interim financial statements do not include all of the disclosures normally found in Churchill Falls' annual audited financial statements and should be read in conjunction with the annual audited financial statements.

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

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

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, 2014	740,861	225,140	167,485	12,912	1,146,398
Additions	(116)	(89)	(48)	50,283	50,030
Decommissioning liability revisions	-	105	-	-	105
Disposals	(2,610)	(605)	(1,018)	-	(4,233)
Transfers	22,145	10,542	12,059	(44,746)	-
Balance at December 31, 2014	760,280	235,093	178,478	18,449	1,192,300
Additions	-	-	-	3,587	3,587
Disposals	(14)	-	(19)	-	(33)
Balance at March 31, 2015	760,266	235,093	178,459	22,036	1,195,854
Depreciation and impairment					
Balance at January 1, 2014	397,164	125,320	70,168	-	592,652
Depreciation expense	9,276	2,776	7,182	-	19,234
Disposals	(1,774)	(467)	(885)	-	(3,126)
Balance at December 31, 2014	404,666	127,629	76,465	-	608,760
Depreciation expense	2,384	848	1,838	-	5,070
Disposals	(9)	-	(10)	-	(19)
Balance at March 31, 2015	407,041	128,477	78,293	-	613,811
Carrying value					
Balance at January 1, 2014	343,697	99,820	97,317	12,912	553,746
Balance at December 31, 2014	355,614	107,464	102,013	18,449	583,540
Balance at March 31, 2015	353,225	106,616	100,166	22,036	582,043

4. INVESTMENT IN JOINT VENTURE

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 during the period.

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

<i>(thousands of Canadian dollars)</i>	Three months ended March 31 2015	March 31 2014
Total assets	7,466	8,167
Total liabilities	781	2,633
Net assets	6,685	5,534
Churchill Falls' share of net assets	2,228	1,846
Total revenue	-	1,226
Total (loss) profit	(43)	487
Churchill Falls' share of (loss) profit	(14)	164

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

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.

	March 31	December 31
	2015	2014
<i>(thousands of Canadian dollars)</i>		
Deferred contributions, beginning of period	13,917	14,700
Amortization	(195)	(783)
Deferred contributions, end of period	13,722	13,917
Less: current portion	(783)	(783)
	12,939	13,134

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 is as follows:

	March 31	December 31
	2015	2014
<i>(thousands of Canadian dollars)</i>		
Decommissioning liabilities, beginning of period	1,197	1,037
Accretion	12	55
Revisions	-	105
Decommissioning liabilities, end of period	1,209	1,197

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 \$464,000 (2014 - \$341,000) are expensed as incurred.

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 2015, cash payments to beneficiaries for its unfunded other employee benefit plans were \$325,000 (2014 - \$222,000). An actuarial valuation was performed as at December 31, 2012, with an extrapolation to December 31, 2015. The next actuarial valuation will be performed as at December 31, 2015.

	Three months ended	
	2015	2014
<i>For the period ended March 31 (thousands of Canadian dollars)</i>		
Component of benefit cost		
Current service cost	361	286
Interest cost	359	346
Total benefit expense for the period	720	632

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

8. SHAREHOLDERS' EQUITY

8.1 Shareholder Contributions

	March 31	December 31
<i>(thousands of Canadian dollars)</i>	2015	2014
Total shareholder contributions	4,923	4,844

During the period, the Churchill Falls (Labrador) Corporation Trust (the Trust) contributed capital of \$79,000 (2014 - \$116,000).

8.2 Dividends Paid and Proposed

	Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	2015	2014
Declared during the period		
Final preferred (overpayment) dividend for prior period	(26)	573
Interim preferred dividend for current period	3,390	1,920
	3,364	2,493

During the period, Churchill Falls did not pay any common dividends (2014 - \$nil).

9. OPERATING COSTS

	Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	2015	2014
Salaries and benefits	10,181	9,971
Rental and royalty expense	3,941	2,872
Maintenance and materials	1,431	1,438
Professional services	796	1,028
Other operating costs	2,380	2,158
	18,729	17,467

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

10. NET FINANCE INCOME AND EXPENSE

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Three months ended	
	2015	2014
Finance income		
Interest on short-term investments	38	28
Interest on reserve fund	346	528
Other interest income	41	26
	425	582
Finance expense		
Net interest on long-term related party payable/receivable	(63)	(56)
Accretion of decommissioning liability	(12)	(13)
Other interest expense	(49)	(14)
	(124)	(83)
Net finance income and expense	301	499

11. FINANCIAL INSTRUMENTS

Fair Value

The estimated fair values of financial instruments as at March 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 period ended March 31, 2015 and the year ended December 31, 2014.

As of March 31, 2015 and December 31, 2014, Churchill Falls did not have any Level 3 instruments.

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

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		March 31, 2015		December 31, 2014	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Cash and cash equivalents	1	24,373	24,373	26,611	26,611
Short-term investments	1	27,507	27,507	5,007	5,007
Trade and other receivables	1	21,643	21,643	21,307	21,307
Long-term related party receivable	2	5,244	5,670	7	7
Reserve fund	2	52,496	52,496	51,999	51,999
Financial liabilities					
Trade and other payables	1	17,890	17,890	25,212	25,212
Rental and royalty payable	1	3,939	3,939	4,724	4,724
Long-term related party payable	2	626	635	1,120	1,137

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.

12. RELATED PARTY TRANSACTIONS

Churchill Falls enters into various transactions with its shareholders and other affiliates. These transactions occur within the normal course of operations and are measured at the exchange amount, which is the amount of consideration agreed to by the related parties. Related parties with which Churchill Falls transacts are as follows:

Related Party	Relationship
Hydro	65.8% shareholder of Churchill Falls
Hydro-Québec	34.2% shareholder of Churchill Falls
Nalcor Energy (Nalcor)	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

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

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

	Hydro- Québec	Hydro	Other	Total
Three Months Ended March 31, 2015				
<i>(thousands of Canadian dollars)</i>				
Power sales	26,212	11,030	-	37,242
Guaranteed winter availability	21,758	-	-	21,758
Operating costs	-	(729)	(4,313)	(5,042)
Finance income and expense	(63)	-	-	(63)
Trade and other receivables	15,755	4,640	300	20,694
Long-term related party receivable	5,244	-	-	5,244
Trade and other payables	1,921	-	711	2,632
Rental and royalty payable	-	-	3,939	3,939
Long-term related party payable	626	-	-	626
Three Months Ended March 31, 2014				
<i>(thousands of Canadian dollars)</i>				
Power sales	24,217	1,475	247	25,939
Guaranteed winter availability	19,103	-	-	19,103
Rental of rights and facilities to Twin Falls	-	-	184	184
Operating costs	-	(765)	(3,275)	(4,040)
Finance income and expense	(56)	-	-	(56)
Trade and other receivables	15,322	283	909	16,514
Long-term related party receivable	5,912	-	-	5,912
Trade and other payables	1,921	-	629	2,550
Rental and royalty payable	-	-	2,870	2,870
Long-term related party payable	2,127	-	-	2,127

13. COMMITMENTS AND CONTINGENCIES

- (a) 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 its financial position.
- (b) 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.

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 sublessee of the transmission lines and related assets from Churchill Falls to Labrador West, covering the period of January 1 to June 30, 2015.

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 for the period ended March 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.

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

14. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Three months ended	
	2015	2014
Trade and other receivables	(336)	1,312
Inventories	(163)	(461)
Prepayments	536	565
Trade and other payables	(7,322)	(4,529)
Rental and royalty payable	(785)	(2,724)
Change in non-cash working capital balances	(8,070)	(5,837)
Interest received	412	956
Interest paid	50	8