

CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED
CONDENSED INTERIM FINANCIAL STATEMENTS
June 30, 2015
(Unaudited)

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

<i>As at (thousands of Canadian dollars)</i>	Notes	June 30 2015	December 31 2014
ASSETS			
Current assets			
Cash and cash equivalents		37,705	26,611
Short-term investments		27,523	5,007
Trade and other receivables		11,470	21,307
Inventories		18,034	17,686
Prepayments		737	1,883
Total current assets		95,469	72,494
Non-current assets			
Property, plant and equipment	3	588,881	583,540
Investment in joint venture	4	2,101	2,242
Reserve fund		52,324	51,999
Long-term related party receivable		2,646	7
Total assets		741,421	710,282
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade and other payables		21,368	25,212
Rental and royalty payable		4,918	4,724
Current portion of deferred contributions	5	783	783
Total current liabilities		27,069	30,719
Non-current liabilities			
Deferred contributions	5	12,743	13,134
Decommissioning liabilities	6	1,221	1,197
Long-term related party payable		250	1,120
Employee benefits liability		34,087	33,102
Total liabilities		75,370	79,272
Shareholders' equity			
Share capital		82,900	82,900
Shareholder contributions	8	4,944	4,844
Reserves		(10,618)	(10,911)
Retained earnings		588,825	554,177
Total shareholders' equity		666,051	631,010
Total liabilities and shareholders' equity		741,421	710,282

Commitments and contingencies (Note 14)

See accompanying notes

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

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Six months ended	
		2015	2014	2015	2014
Power sales		25,253	15,770	62,495	41,709
Guaranteed winter availability		-	-	21,758	19,104
Rental of rights and facilities to Twin Falls		-	183	-	367
Other revenue	5	196	195	391	391
Revenue		25,449	16,148	84,644	61,571
Operating costs	9	14,529	14,220	33,258	31,687
Depreciation	3	5,110	4,382	10,180	9,249
Net finance (income) expense	10	(405)	(549)	(756)	(1,048)
Other (income) expense	11	296	786	357	802
Share of loss (profit) of joint venture	4	127	(155)	141	(320)
Profit (loss) for the period		5,792	(2,536)	41,464	21,201
Other comprehensive (loss) income for the period		(183)	(38)	293	223
Total comprehensive income (loss) for the period		5,609	(2,574)	41,757	21,424

See accompanying notes

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

<i>(thousands of Canadian dollars)</i>	Notes	Share 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		-	-	-	-	41,464	41,464
Other comprehensive income							
Net change in fair value of available for sale financial instruments		-	-	326	-	-	326
Net change in fair value of financial instruments reclassified to profit or loss		-	-	(33)	-	-	(33)
Total comprehensive income for the period		-	-	293	-	41,464	41,757
Capital contributions	8	-	100	-	-	-	100
Preferred dividends	8	-	-	-	-	(6,816)	(6,816)
Balance at June 30, 2015		82,900	4,944	1,246	(11,864)	588,825	666,051
Balance at January 1, 2014		82,900	4,605	1,248	(7,587)	533,674	614,840
Profit for the period		-	-	-	-	21,201	21,201
Other comprehensive income							
Net change in fair value of available for sale financial instruments		-	-	460	-	-	460
Net change in fair value of financial instruments reclassified to profit or loss		-	-	(237)	-	-	(237)
Total comprehensive income for the period		-	-	223	-	21,201	21,424
Preferred dividends	8	-	-	-	-	(4,481)	(4,481)
Balance at June 30, 2014		82,900	4,605	1,471	(7,587)	550,394	631,783

See accompanying notes

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

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Six months ended	
		2015	2014	2015	2014
Cash provided from (used in)					
Operating activities					
Profit (loss) for the period		5,792	(2,536)	41,464	21,201
Adjusted for items not involving a cash flow:					
Depreciation	3	5,110	4,382	10,180	9,249
Amortization of deferred contributions	5	(196)	(195)	(391)	(391)
Employee benefits		590	536	985	946
Accretion of decommissioning liability	6	12	14	24	27
Loss on disposal of property, plant and equipment		-	531	14	547
Share of loss (profit) of joint venture	4	127	(155)	141	(320)
		11,435	2,577	52,417	31,259
Change in non-cash working capital balances	15	15,055	14,764	6,985	8,927
Net cash provided from operating activities		26,490	17,341	59,402	40,186
Investing activities					
Additions to property, plant and equipment	3	(11,948)	(16,040)	(15,535)	(22,965)
Increase in short-term investments		(16)	(2,037)	(22,516)	(18,043)
(Increase) decrease in reserve fund		(11)	11	(32)	377
Proceeds on disposal of property, plant and equipment		-	-	-	4
Net cash used in investing activities		(11,975)	(18,066)	(38,083)	(40,627)
Financing activities					
Change in long-term related party receivable		2,222	2,035	(3,509)	(1,910)
Increase in contributed capital	8	21	-	100	-
Preferred dividends	8	(3,426)	(1,988)	(6,816)	(4,481)
Net cash (used in) provided from financing activities		(1,183)	47	(10,225)	(6,391)
Net increase (decrease) in cash and cash equivalents		13,332	(678)	11,094	(6,832)
Cash and cash equivalents, beginning of period		24,373	10,985	26,611	17,139
Cash and cash equivalents, end of period		37,705	10,307	37,705	10,307

Supplementary cash flow information (Note 15)

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 (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.

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 accounting policies 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	(34)	-	-	15,569	15,535
Disposals	(14)	-	(19)	-	(33)
Transfers	173	(38)	1,825	(1,960)	-
Balance at June 30, 2015	760,405	235,055	180,284	32,058	1,207,802
Depreciation					
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	4,767	1,697	3,716	-	10,180
Disposals	(9)	-	(10)	-	(19)
Balance at June 30, 2015	409,424	129,326	80,171	-	618,921
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 June 30, 2015	350,981	105,729	100,113	32,058	588,881

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>	Six months ended	
	June 30 2015	June 30 2014
Total assets	7,040	9,077
Total liabilities	735	3,071
Net assets	6,305	6,006
Churchill Falls' share of net assets	2,101	2,002
Total revenue	-	2,452
Total (loss) profit	(423)	959
Churchill Falls' share of (loss) profit	(141)	320

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.

	June 30	December 31
	2015	2014
<i>(thousands of Canadian dollars)</i>		
Deferred contributions, beginning of period	13,917	14,700
Amortization	(391)	(783)
Deferred contributions, end of period	13,526	13,917
Less: current portion	(783)	(783)
	12,743	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 amounts of these decommissioning liabilities are as follows:

	June 30	December 31
	2015	2014
<i>(thousands of Canadian dollars)</i>		
Decommissioning liabilities, beginning of period	1,197	1,037
Accretion	24	55
Revisions	-	105
Decommissioning liabilities, end of period	1,221	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 \$1,060,000 (2014 - \$737,000) 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 \$455,000 (2014 - \$318,000). 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		Six months ended	
	2015	2014	2015	2014
<i>For the period ended June 30 (thousands of Canadian dollars)</i>				
Component of benefit cost				
Current service cost	360	286	721	572
Interest cost	359	347	718	693
Total benefit expense for the period	719	633	1,439	1,265

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

8. SHAREHOLDERS' EQUITY

8.1 Shareholder Contributions

	June 30	December 31
	2015	2014
<i>(thousands of Canadian dollars)</i>		
Total shareholder contributions	4,944	4,844

During 2015, the Churchill Falls (Labrador) Corporation Trust (the Trust) contributed capital of \$100,000 (2014 - \$239,000).

8.2 Dividends Paid and Proposed

	Three months ended		Six months ended	
	2015	2014	2015	2014
<i>For the period ended June 30 (thousands of Canadian dollars)</i>				
Declared during the period				
Final preferred (overpayment) dividend for prior period	-	-	(26)	573
Interim preferred dividend for current period	3,452	1,988	6,842	3,908
	3,452	1,988	6,816	4,481

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

9. OPERATING COSTS

	Three months ended		Six months ended	
	2015	2014	2015	2014
<i>For the period ended June 30 (thousands of Canadian dollars)</i>				
Salaries and benefits	9,477	7,997	19,658	17,968
Rental and royalty expense	980	194	4,921	3,065
Maintenance and materials	1,957	2,819	3,388	4,257
Professional services	1,040	1,377	1,836	2,405
Other operating costs	1,075	1,833	3,455	3,992
	14,529	14,220	33,258	31,687

10. NET FINANCE (INCOME) EXPENSE

	Three months ended		Six months ended	
	2015	2014	2015	2014
<i>For the period ended June 30 (thousands of Canadian dollars)</i>				
Finance income				
Interest on short-term investments	100	61	138	89
Interest on reserve fund	342	540	688	1,068
Other interest income	-	(11)	-	10
	442	590	826	1,167
Finance expense				
Net interest on long-term related party payable (receivable)	57	49	120	105
Accretion of decommissioning liability	12	14	24	27
Other interest expense	(32)	(22)	(74)	(13)
	37	41	70	119
Net finance (income) expense	(405)	(549)	(756)	(1,048)

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

11. OTHER (INCOME) EXPENSE

<i>For the period ended (thousands of Canadian dollars)</i>	Three months ended		Six months ended	
	2015	2014	2015	2014
Loss on disposal of assets	295	788	306	804
Loss (gain) on foreign exchange	1	(2)	51	(2)
Other expense (income)	296	786	357	802

12. FINANCIAL INSTRUMENTS

Fair Value

The estimated fair values of financial instruments as at June 30, 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 June 30, 2015 and the year ended December 31, 2014.

As at June 30, 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
		June 30, 2015		December 31, 2014	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Cash and cash equivalents	1	37,705	37,705	26,611	26,611
Short-term investments	1	27,523	27,523	5,007	5,007
Trade and other receivables	1	11,470	11,470	21,307	21,307
Long-term related party receivable	2	2,646	2,847	7	7
Reserve fund	2	52,324	52,324	51,999	51,999
Financial liabilities					
Trade and other payables	1	21,368	21,368	25,212	25,212
Rental and royalty payable	1	4,918	4,918	4,724	4,724
Long-term related party payable	2	250	252	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.

13. 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
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
<i>(thousands of Canadian dollars)</i>				
Six Months Ended June 30, 2015				
Power sales	40,704	21,791	-	62,495
Guaranteed winter availability	21,758	-	-	21,758
Operating costs	-	(1,003)	4,492	3,489
Net finance (income) expense	120	-	-	120
Trade and other receivables	6,461	3,335	230	10,026
Long-term related party receivable	2,646	-	-	2,646
Trade and other payables	1,921	-	692	2,613
Rental and royalty payable	-	-	4,918	4,918
Long-term related party payable	250	-	-	250
<i>(thousands of Canadian dollars)</i>				
Six Months Ended June 30, 2014				
Power sales	38,211	3,006	492	41,709
Guaranteed winter availability	19,104	-	-	19,104
Rental of rights and facilities to Twin Falls	-	-	367	367
Operating costs	-	1,520	3,842	5,362
Net finance (income) expense	105	-	-	105
Trade and other receivables	6,134	162	1,223	7,519
Long-term related party receivable	3,502	-	-	3,502
Trade and other payables	1,921	-	521	2,442
Rental and royalty payable	-	-	3,063	3,063
Long-term related party payable	1,752	-	-	1,752

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

14. 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. The term of this sub-lease has been extended to December 31, 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 June 30, 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.

15. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Three months ended		Six months ended	
	2015	2014	2015	2014
Trade and other receivables	10,173	8,854	9,837	10,166
Inventories	(185)	121	(348)	(340)
Prepayments	610	667	1,146	1,232
Trade and other payables	3,478	4,929	(3,844)	400
Rental and royalty payable	979	193	194	(2,531)
Change in non-cash working capital balances	15,055	14,764	6,985	8,927
Interest received	769	596	1,181	1,552
Interest paid	46	144	96	152

16. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with presentation adopted during the current reporting period.