

**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**  
**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**March 31, 2016**  
**(Unaudited)**

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

<i>As at (thousands of Canadian dollars)</i>	Notes	<b>March 31 2016</b>	December 31 2015
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents		<b>70,987</b>	54,924
Trade and other receivables		<b>26,417</b>	23,782
Inventories		<b>18,888</b>	18,753
Prepayments		<b>1,466</b>	1,932
<b>Total current assets</b>		<b>117,758</b>	99,391
Non-current assets			
Property, plant and equipment	3	<b>617,121</b>	615,457
Intangible assets	4	<b>631</b>	668
Investment in joint venture	5	<b>1,841</b>	1,853
Reserve fund		<b>46,971</b>	47,015
Long-term related party receivable		-	7
<b>Total assets</b>		<b>784,322</b>	764,391
<b>LIABILITIES AND EQUITY</b>			
Current liabilities			
Trade and other payables		<b>20,813</b>	27,841
Rental and royalty payable		<b>3,797</b>	7,752
Current portion of deferred contributions	6	<b>783</b>	783
<b>Total current liabilities</b>		<b>25,393</b>	36,376
Non-current liabilities			
Deferred contributions	6	<b>12,156</b>	12,351
Decommissioning liabilities	7	<b>1,307</b>	1,296
Employee benefits liability		<b>31,844</b>	31,339
<b>Total liabilities</b>		<b>70,700</b>	81,362
Shareholders' equity			
Share capital	10	<b>82,900</b>	82,900
Shareholder contributions	10	<b>4,997</b>	4,966
Reserves		<b>(7,304)</b>	(7,205)
Retained earnings		<b>633,029</b>	602,368
<b>Total equity</b>		<b>713,622</b>	683,029
<b>Total liabilities and equity</b>		<b>784,322</b>	764,391

Commitments and contingencies (Note 16)

*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	
		2016	2015
Power sales		<b>36,574</b>	37,242
Guaranteed winter availability		<b>21,275</b>	21,758
Other revenue	6	<b>195</b>	195
Revenue		<b>58,044</b>	59,195
Operating costs	11	<b>18,359</b>	18,729
Depreciation and amortization	3,4	<b>5,627</b>	5,070
Net finance (income) expense	12	<b>(404)</b>	(351)
Other (income) expense	13	<b>(4)</b>	61
Share of loss of joint venture	5	<b>12</b>	14
Profit for the period		<b>34,454</b>	35,672
Other comprehensive (loss) income for the period		<b>(99)</b>	476
Total comprehensive income for the period		<b>34,355</b>	36,148

*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
<b>Balance at January 1, 2016</b>		<b>82,900</b>	<b>4,966</b>	<b>851</b>	<b>(8,056)</b>	<b>602,368</b>	<b>683,029</b>
<b>Profit for the period</b>		-	-	-	-	<b>34,454</b>	<b>34,454</b>
<b>Other comprehensive income</b>							
Net change in fair value of available-for-sale financial instruments	9	-	-	(44)	-	-	(44)
Net change in fair value of financial instruments reclassified to profit or loss	9	-	-	(55)	-	-	(55)
<b>Total comprehensive (loss) income for the period</b>		-	-	(99)	-	<b>34,454</b>	<b>34,355</b>
<b>Shareholder contributions</b>	<b>10</b>	-	<b>31</b>	-	-	-	<b>31</b>
<b>Preferred dividends</b>	<b>10</b>	-	-	-	-	<b>(3,793)</b>	<b>(3,793)</b>
<b>Balance at March 31, 2016</b>		<b>82,900</b>	<b>4,997</b>	<b>752</b>	<b>(8,056)</b>	<b>633,029</b>	<b>713,622</b>
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	9	-	-	497	-	-	497
Net change in fair value of financial instruments reclassified to profit or loss	9	-	-	(21)	-	-	(21)
<b>Total comprehensive income for the period</b>		-	-	476	-	35,672	36,148
<b>Shareholder contributions</b>	<b>10</b>	-	<b>79</b>	-	-	-	<b>79</b>
<b>Preferred dividends</b>	<b>10</b>	-	-	-	-	<b>(3,390)</b>	<b>(3,390)</b>
<b>Balance at March 31, 2015</b>		<b>82,900</b>	<b>4,923</b>	<b>1,429</b>	<b>(11,864)</b>	<b>586,459</b>	<b>663,847</b>

See accompanying notes

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

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Notes	Three months ended	
		2016	2015
<b>Cash provided from (used in)</b>			
<b>Operating activities</b>			
Profit for the period		<b>34,454</b>	35,672
Adjusted for items not involving a cash flow:			
Depreciation and amortization	3,4	<b>5,627</b>	5,070
Amortization of deferred contributions	6	<b>(195)</b>	(195)
Employee benefits		<b>505</b>	395
Loss on disposal of property, plant and equipment	13	<b>15</b>	14
Accretion of decommissioning liability	7	<b>11</b>	12
Share of loss of joint venture	5	<b>12</b>	14
		<b>40,429</b>	40,982
Changes in non-cash working capital balances	17	<b>(13,287)</b>	(8,070)
<b>Net cash provided from operating activities</b>		<b>27,142</b>	32,912
<b>Investing activities</b>			
Additions to property, plant and equipment	3	<b>(7,269)</b>	(3,587)
Increase in short-term investments		-	(22,500)
Increase in reserve fund		<b>(55)</b>	(21)
<b>Net cash used in investing activities</b>		<b>(7,324)</b>	(26,108)
<b>Financing activities</b>			
Decrease (increase) in long-term related party receivable		<b>7</b>	(5,731)
Increase in shareholder contributions	10	<b>31</b>	79
Preferred dividends	10	<b>(3,793)</b>	(3,390)
<b>Net cash used in financing activities</b>		<b>(3,755)</b>	(9,042)
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>16,063</b>	(2,238)
<b>Cash and cash equivalents, beginning of period</b>		<b>54,924</b>	26,611
<b>Cash and cash equivalents, end of period</b>		<b>70,987</b>	24,373
Interest received		<b>450</b>	412
Interest paid		<b>22</b>	50

See accompanying notes

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

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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**

**Statement of Compliance and Basis of Measurement**

These condensed interim financial statements have been prepared in accordance with International Accounting Standards (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, 2015.

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 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. The condensed interim financial statements were approved by Churchill Falls' Board of Directors on May 12, 2016.

**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
<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>-</b>	<b>-</b>	<b>-</b>	<b>7,269</b>	<b>7,269</b>
<b>Disposals</b>	<b>-</b>	<b>-</b>	<b>(192)</b>	<b>-</b>	<b>(192)</b>
<b>Balance at March 31, 2016</b>	<b>776,739</b>	<b>249,807</b>	<b>189,845</b>	<b>30,087</b>	<b>1,246,478</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>2,601</b>	<b>992</b>	<b>1,997</b>	<b>-</b>	<b>5,590</b>
<b>Disposals</b>	<b>-</b>	<b>-</b>	<b>(177)</b>	<b>-</b>	<b>(177)</b>
<b>Balance at March 31, 2016</b>	<b>415,019</b>	<b>131,336</b>	<b>83,002</b>	<b>-</b>	<b>629,357</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 March 31, 2016</b>	<b>361,720</b>	<b>118,471</b>	<b>106,843</b>	<b>30,087</b>	<b>617,121</b>

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

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**4. INTANGIBLE ASSETS**

*(thousands of Canadian dollars)*

Software

Cost

Balance at January 1, 2015	1,021
Additions	217
Decommissioning liability revisions	-
Disposals	-
Transfers	-
Balance at December 31, 2015	1,238
<b>Additions</b>	-
<b>Disposals</b>	-
<b>Transfers</b>	-
<b>Balance at March 31, 2016</b>	<b>1,238</b>

Amortization

Balance at January 1, 2015	451
Amortization	119
Disposals	-
Transfers	-
Balance at December 31, 2015	570
<b>Amortization</b>	<b>37</b>
<b>Disposals</b>	-
<b>Balance at March 31, 2016</b>	<b>607</b>

Carrying value

Balance at January 1, 2015	570
Balance at December 31, 2015	668
<b>Balance at March 31, 2016</b>	<b>631</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.



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

**5. 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 period.

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

	<b>Three months ended</b>	
	<b>March 31</b>	March 31
	<b>2016</b>	2015
<i>(thousands of Canadian dollars)</i>		
Current assets	<b>5,835</b>	7,089
Non-current assets	<b>335</b>	377
Current liabilities	<b>596</b>	684
Non-current liabilities	<b>50</b>	97
Net assets	<b>5,524</b>	6,685
Churchill Falls' share of net assets	<b>1,841</b>	2,228
Total loss	<b>(37)</b>	(43)
Churchill Falls' share of loss	<b>(12)</b>	(14)

The above amounts of assets and liabilities include the following:

Cash and cash equivalents	<b>5,519</b>	5,558
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**6. 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.

	<b>March 31</b>	December 31
	<b>2016</b>	2015
<i>As at (thousands of Canadian dollars)</i>		
Deferred contributions, beginning of period	<b>13,134</b>	13,917
Amortization	<b>(195)</b>	(783)
Deferred contributions, end of period	<b>12,939</b>	13,134
Less: current portion	<b>(783)</b>	(783)
	<b>12,156</b>	12,351

**7. 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 March 31, 2016 and December 31, 2015 are as follows:

	<b>March 31</b>	December
	<b>2016</b>	2015
<i>As at (thousands of Canadian dollars)</i>		
Decommissioning liabilities, beginning of period	<b>1,296</b>	1,197
Accretion	<b>11</b>	48
Revisions	<b>-</b>	51
Decommissioning liabilities, end of period	<b>1,307</b>	1,296

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

**8. EMPLOYEE FUTURE BENEFITS**

**8.1 Pension Plan**

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions for the period ended March 31, 2016 of \$589,000 (2015 - \$544,000) are expensed as incurred.

**8.2 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 \$199,000 (2015 - \$325,000). An actuarial valuation was performed as at December 31, 2015, with an extrapolation to December 31, 2016.

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	<b>Three months ended</b>	
	<b>2016</b>	2015
Component of benefit cost		
Current service cost	<b>371</b>	361
Interest cost	<b>332</b>	359
<b>Total benefit expense for the period</b>	<b>703</b>	720

**9. 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>Three months ended</b>	
	<b>2016</b>	2015
Employee benefits liability		
Balance, beginning of period	<b>(8,056)</b>	(11,864)
Net actuarial gains/losses on defined benefit plan	-	-
<b>Balance, end of period</b>	<b>(8,056)</b>	(11,864)

*Items that may be reclassified to profit or loss:*

<i>(thousands of Canadian dollars)</i>	<b>Three months ended</b>	
	<b>2016</b>	2015
Available-for-sale financial instruments		
Balance, beginning of period	<b>851</b>	953
Net fair value gain (loss) on available-for-sale during the period	<b>(44)</b>	497
Reclassification adjustments related to disposals during the period	<b>(55)</b>	(21)
<b>Balance, end of period</b>	<b>752</b>	1,429

**10. SHAREHOLDERS' EQUITY**

**10.1 Share Capital**

<i>As at (thousands of Canadian dollars)</i>	<b>March 31</b>	December 31
	<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 CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)**

**10.2 Shareholder Contributions**

	<b>March 31</b>	December 31
<i>As at (thousands of Canadian dollars)</i>	<b>2016</b>	2015
Total shareholder contributions	<b>4,997</b>	4,966

During 2016, the Churchill Falls (Labrador) Corporation Trust (the Trust) contributed \$31,000 (2015 - \$122,000).

**10.3 Dividends Paid and Proposed**

	<b>Three months ended</b>	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	<b>2016</b>	2015
Declared during the period		
Final preferred dividend for prior period	<b>1,243</b>	-
Interim preferred dividend for current period	<b>2,550</b>	3,390
	<b>3,793</b>	3,390

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

**11. OPERATING COSTS**

	<b>Three months ended</b>	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	<b>2016</b>	2015
Salaries and benefits expense	<b>11,527</b>	10,181
Rental and royalty expense	<b>3,800</b>	3,941
Professional services	<b>640</b>	796
Maintenance and materials	<b>1,510</b>	1,431
Other operating costs	<b>882</b>	2,380
	<b>18,359</b>	18,729

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

	<b>Three months ended</b>	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	<b>2016</b>	2015
Finance income		
Net interest on long-term related party receivable	<b>5</b>	-
Interest on short-term investments	<b>-</b>	38
Interest on reserve fund	<b>308</b>	346
Other interest income	<b>109</b>	50
	<b>422</b>	434
Finance expense		
Net interest on long-term related party payable	<b>-</b>	63
Accretion of decommissioning liability	<b>11</b>	12
Other interest expense	<b>7</b>	8
	<b>18</b>	83
Net finance (income) expense	<b>(404)</b>	(351)

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

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**13. OTHER (INCOME) EXPENSE**

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	<b>Three months ended</b>	
	<b>2016</b>	<b>2015</b>
Foreign exchange (gain) loss	<b>(21)</b>	50
Loss on disposal of property, plant and equipment	<b>15</b>	14
Other asset disposal costs (recovery)	<b>2</b>	(3)
Other (income) expense	<b>(4)</b>	61

**14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

**Fair Value**

The estimated fair values of financial instruments as at March 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).

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 periods ended March 31, 2016 and December 31, 2015.

As at March 31, 2016 and December 31, 2015, 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, 2016		December 31, 2015	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Long-term related party receivable*	2	-	-	7	7
Reserve fund	2	46,971	46,971	47,015	47,015
Financial liabilities					
Long-term related party payable**	2	-	-	476	511

\*As at March 31, 2016, the related party receivable relating to the Annual Energy Base of \$4,030 (fair value - \$4,324) was included in trade and other receivables.

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

The fair values of cash and cash equivalents, 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.

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.

**15. 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
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)**

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

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>Three months ended March 31, 2016</b>				
<b>Power sales</b>	<b>25,019</b>	<b>11,555</b>	<b>-</b>	<b>36,574</b>
<b>Guaranteed winter availability</b>	<b>21,275</b>	<b>-</b>	<b>-</b>	<b>21,275</b>
<b>Operating costs</b>	<b>-</b>	<b>530</b>	<b>4,322</b>	<b>4,852</b>
<b>Net finance (income) expense</b>	<b>(5)</b>	<b>-</b>	<b>-</b>	<b>(5)</b>
<b>Trade and other receivables</b>	<b>19,656</b>	<b>4,649</b>	<b>97</b>	<b>24,402</b>
<b>Trade and other payables</b>	<b>1,045</b>	<b>-</b>	<b>936</b>	<b>1,981</b>
<b>Rental and royalty payable</b>	<b>-</b>	<b>-</b>	<b>3,797</b>	<b>3,797</b>
<i>(thousands of Canadian dollars)</i>				
<b>Three months ended March 31, 2015</b>				
Power sales	26,212	11,030	-	37,242
Guaranteed winter availability	21,758	-	-	21,758
Operating costs	-	729	4,313	5,042
Net finance (income) expense	63	-	-	63
Trade and other receivables	15,755	4,640	300	20,695
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

**16. COMMITMENTS AND CONTINGENCIES**

- (a) Outstanding commitments for capital projects total approximately \$35.1 million as at March 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 Sub-lease between Twinco and Churchill Falls dated November 15, 1961 giving Twinco 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 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 interim financial statements of Twin Falls for the period ended March 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.

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

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**17. SUPPLEMENTARY CASH FLOW INFORMATION**

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	<b>Three months ended</b>	
	<b>2016</b>	<b>2015</b>
Trade and other receivables	<b>(2,635)</b>	(336)
Inventories	<b>(135)</b>	(163)
Prepayments	<b>466</b>	536
Trade and other payables	<b>(7,028)</b>	(7,322)
Rental and royalty payable	<b>(3,955)</b>	(785)
Change in non-cash working capital balances	<b>(13,287)</b>	(8,070)

**18. 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	Foreign exchange loss	<b>Reclassified balance</b>
Net finance (income) expense	(301)	(50)	<b>(351)</b>
Other (income) expense	11	50	<b>61</b>