

CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED
CONDENSED INTERIM FINANCIAL STATEMENTS
June 30, 2016
(Unaudited)

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

<i>As at (thousands of Canadian dollars)</i>	Notes	June 30 2016	December 31 2015
ASSETS			
Current assets			
Cash and cash equivalents		56,975	54,924
Short-term investments		20,013	-
Trade and other receivables		17,400	23,782
Inventories		18,656	18,753
Prepayments		765	1,932
Total current assets		113,809	99,391
Non-current assets			
Property, plant and equipment	3	630,688	615,457
Intangible assets	4	595	668
Investment in joint venture	5	1,831	1,853
Reserve fund		46,948	47,015
Long-term related party receivable		-	7
Total assets		793,871	764,391
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		28,892	27,841
Rental and royalty payable		4,693	7,752
Current portion of deferred contributions	6	783	783
Total current liabilities		34,368	36,376
Non-current liabilities			
Deferred contributions	6	11,960	12,351
Decommissioning liabilities	7	1,318	1,296
Employee benefits liability		32,393	31,339
Total liabilities		80,039	81,362
Shareholders' equity			
Share capital	10	82,900	82,900
Shareholder contributions	10	5,243	4,966
Reserves		(7,382)	(7,205)
Retained earnings		633,071	602,368
Total equity		713,832	683,029
Total liabilities and equity		793,871	764,391

Commitments and contingencies (Note 16)

Subsequent events (Note 18)

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	
		2016	2015	2016	2015
Power sales		23,629	25,253	60,203	62,495
Guaranteed winter availability		-	-	21,275	21,758
Other revenue	6	196	196	391	391
Revenue		23,825	25,449	81,869	84,644
Operating costs	11	15,888	14,529	34,247	33,258
Depreciation and amortization	3,4	5,630	5,110	11,257	10,180
Net finance (income) expense	12	(481)	(405)	(885)	(756)
Other (income) expense	13	186	296	182	357
Share of loss of joint venture	5	10	127	22	141
Profit for the period		2,592	5,792	37,046	41,464
Other comprehensive (loss) income for the period					
Net fair value (loss) gain on available-for-sale financial instruments	9	(23)	(171)	(67)	326
Amounts reclassified to profit or loss	9	(55)	(12)	(110)	(33)
Other comprehensive (loss) income for the period		(78)	(183)	(177)	293
Total comprehensive income for the period		2,514	5,609	36,869	41,757

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, 2016		82,900	4,966	851	(8,056)	602,368	683,029
Profit for the period		-	-	-	-	37,046	37,046
Other comprehensive income							
Net change in fair value of available-for-sale financial instruments	9	-	-	(67)	-	-	(67)
Net change in fair value of financial instruments reclassified to profit or loss	9	-	-	(110)	-	-	(110)
Total comprehensive (loss) income for the period		-	-	(177)	-	37,046	36,869
Shareholder contributions	10	-	277	-	-	-	277
Preferred dividends	10	-	-	-	-	(6,343)	(6,343)
Balance at June 30, 2016		82,900	5,243	674	(8,056)	633,071	713,832
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	9	-	-	326	-	-	326
Net change in fair value of financial instruments reclassified to profit or loss	9	-	-	(33)	-	-	(33)
Total comprehensive income for the period		-	-	293	-	41,464	41,757
Shareholder contributions	10	-	100	-	-	-	100
Preferred dividends	10	-	-	-	-	(6,816)	(6,816)
Balance at June 30, 2015		82,900	4,944	1,246	(11,864)	588,825	666,051

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	
		2016	2015	2016	2015
Cash provided from (used in)					
Operating activities					
Profit for the period		2,592	5,792	37,046	41,464
Adjusted for items not involving a cash flow:					
Depreciation and amortization	3,4	5,630	5,110	11,257	10,180
Amortization of deferred contributions	6	(196)	(196)	(391)	(391)
Employee benefits		549	590	1,054	985
Loss on disposal of property, plant and equipment	13	3	-	18	14
Accretion of decommissioning liability	7	11	12	22	24
Net discount on reserve fund		(55)	(11)	(110)	(32)
Share of loss of joint venture	5	10	127	22	141
		8,544	11,424	48,918	52,385
Change in non-cash working capital balances	17	18,925	15,055	5,638	6,985
Net cash provided from operating activities		27,469	26,479	54,556	59,370
Investing activities					
Additions to property, plant and equipment	3	(19,164)	(11,948)	(26,433)	(15,535)
Increase in short-term investments		(20,013)	(16)	(20,013)	(22,516)
Net cash used in investing activities		(39,177)	(11,964)	(46,446)	(38,051)
Financing activities					
Decrease (increase) in long-term related party receivable		-	2,222	7	(3,509)
Increase in shareholder contributions	10	246	21	277	100
Preferred dividends	10	(2,550)	(3,426)	(6,343)	(6,816)
Net cash used in financing activities		(2,304)	(1,183)	(6,059)	(10,225)
Net (decrease) increase in cash and cash equivalents		(14,012)	13,332	2,051	11,094
Cash and cash equivalents, beginning of period		70,987	24,373	54,924	26,611
Cash and cash equivalents, end of period		56,975	37,705	56,975	37,705
Interest received		334	769	784	1,181
Interest paid		13	46	35	96

See accompanying notes

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

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' Audit Committee on August 9, 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
Cost					
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)	-
Balance at December 31, 2015	776,739	249,807	190,037	22,818	1,239,401
Additions	-	-	24	26,409	26,433
Disposals	(1)	(5)	(279)	-	(285)
Transfers	161	-	39	(200)	-
Balance at June 30, 2016	776,899	249,802	189,821	49,027	1,265,549
Depreciation					
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)
Balance at December 31, 2015	412,418	130,344	81,182	-	623,944
Depreciation	5,206	1,985	3,993	-	11,184
Disposals	-	(5)	(262)	-	(267)
Balance at June 30, 2016	417,624	132,324	84,913	-	634,861
Carrying value					
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
Balance at June 30, 2016	359,275	117,478	104,908	49,027	630,688

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

4. INTANGIBLE ASSETS

(thousands of Canadian dollars)

Software

Cost

Balance at January 1, 2015	1,021
Additions	217
Disposals	-
Transfers	-
Balance at December 31, 2015	1,238
Additions	-
Disposals	-
Transfers	-
Balance at June 30, 2016	1,238

Amortization

Balance at January 1, 2015	451
Amortization	119
Disposals	-
Transfers	-
Balance at December 31, 2015	570
Amortization	73
Disposals	-
Balance at June 30, 2016	643

Carrying value

Balance at January 1, 2015	570
Balance at December 31, 2015	668
Balance at June 30, 2016	595

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:

	Six months ended	
	June 30	June 30
	2016	2015
<i>(thousands of Canadian dollars)</i>		
Current assets	5,817	6,202
Non-current assets	325	838
Current liabilities	599	170
Non-current liabilities	47	565
Net assets	5,496	6,305
Churchill Falls' share of net assets	1,831	2,101
Total loss	(65)	(423)
Churchill Falls' share of loss	(22)	(141)

The above amounts of assets and liabilities include the following:

Cash and cash equivalents	5,518	5,609
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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.

	June 30	December 31
	2016	2015
<i>As at (thousands of Canadian dollars)</i>		
Deferred contributions, beginning of period	13,134	13,917
Amortization	(391)	(783)
Deferred contributions, end of period	12,743	13,134
Less: current portion	(783)	(783)
	11,960	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 June 30, 2016 and December 31, 2015 are as follows:

	June 30	December
	2016	2015
<i>As at (thousands of Canadian dollars)</i>		
Decommissioning liabilities, beginning of period	1,296	1,197
Accretion	22	48
Revisions	-	51
Decommissioning liabilities, end of period	1,318	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 June 30, 2016 of \$1,130,000 (2015 - \$1,060,000) 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 \$353,000 (2015 - \$455,000). An actuarial valuation was performed as at December 31, 2015, with an extrapolation to December 31, 2016.

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Three months ended		Six months ended	
	2016	2015	2016	2015
Component of benefit cost				
Current service cost	372	360	743	721
Interest cost	332	359	664	718
Total benefit expense for the period	704	719	1,407	1,439

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>	2016	2015
Employee benefits liability		
Balance at January 1	(8,056)	(11,864)
Net actuarial gains/losses on defined benefit plan	-	-
Balance at June 30	(8,056)	(11,864)

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

<i>(thousands of Canadian dollars)</i>	2016	2015
Available-for-sale financial instruments		
Balance at January 1	851	953
Net fair value (loss) gain on available-for-sale during the period	(67)	326
Amounts reclassified to profit or loss	(110)	(33)
Balance at June 30	674	1,246

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

10. SHAREHOLDERS' EQUITY

10.1 Share Capital

	June 30	December 31
<i>As at (thousands of Canadian dollars)</i>	2016	2015
Common shares without nominal or par value		
Authorized - unlimited		
Issued, fully paid and outstanding - 8,759,999	82,900	82,900
Preferred shares without nominal or par value		
Authorized - 3		
Issued, fully paid and outstanding - 3	-	-

10.2 Shareholder Contributions

	June 30	December 31
<i>As at (thousands of Canadian dollars)</i>	2016	2015
Total shareholder contributions	5,243	4,966

During 2016, the Churchill Falls (Labrador) Corporation Trust (the Trust) contributed \$277,000 (2015 - \$122,000).

10.3 Dividends Paid and Proposed

	Three months ended		Six months ended	
<i>For the period ended June 30 (thousands of Canadian dollars)</i>	2016	2015	2016	2015
Declared during the period				
Final preferred dividend for prior year	-	-	1,243	-
Interim preferred dividend for current period	2,550	3,426	5,100	6,816
	2,550	3,426	6,343	6,816

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

11. OPERATING COSTS

	Three months ended		Six months ended	
<i>For the period ended June 30 (thousands of Canadian dollars)</i>	2016	2015	2016	2015
Salaries and benefits expense	10,194	9,477	21,721	19,658
Rental and royalty expense	896	980	4,696	4,921
Maintenance and materials	2,170	1,957	3,680	3,388
Professional services	2,076	1,040	2,716	1,836
Other operating costs	552	1,075	1,434	3,455
	15,888	14,529	34,247	33,258

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

12. NET FINANCE (INCOME) EXPENSE

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Three months ended		Six months ended	
	2016	2015	2016	2015
Finance income				
Net interest on long-term related party receivable	18	-	38	-
Interest on short-term investments	12	100	12	138
Interest on reserve fund	307	342	615	688
Other interest income	168	42	277	92
	505	484	942	918
Finance expense				
Net interest on long-term related party payable	8	57	23	120
Accretion of decommissioning liability	11	12	22	24
Other interest expense	5	10	12	18
	24	79	57	162
Net finance (income) expense	(481)	(405)	(885)	(756)

13. OTHER (INCOME) EXPENSE

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Three months ended		Six months ended	
	2016	2015	2016	2015
Realized foreign exchange (gain) loss	(4)	(12)	(142)	79
Unrealized foreign exchange loss (gain)	10	13	127	(28)
Loss on disposal of property, plant and equipment	3	-	18	14
Other asset disposal costs	177	295	179	292
Other (income) expense	186	296	182	357

14. FINANCIAL INSTRUMENTS

Fair Value

The estimated fair values of financial instruments as at June 30, 2016 and December 31, 2015 are based on relevant market prices and information available at the time. Fair value estimates are based on valuation techniques which are significantly affected by the assumptions used including the amount and timing of future cash flows and discount rates reflecting various degrees of risk. As such, the fair value estimates below are not necessarily indicative of the amounts that Churchill Falls might receive or incur in actual market transactions.

As a significant number of Churchill Falls' assets and liabilities do not meet the definition of a financial instrument, the fair value estimates below do not reflect the fair value of Churchill Falls as a whole.

Establishing Fair Value

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the nature of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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 June 30, 2016 and December 31, 2015.

As at June 30, 2016 and December 31, 2015, Churchill Falls did not have any Level 3 instruments.

	Level	Carrying Value June 30, 2016	Fair Value	Carrying Value December 31, 2015	Fair Value
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Long-term related party receivable*	2	-	-	7	7
Reserve fund	2	46,948	46,948	47,015	47,015

*As at June 30, 2016, the related party receivable relating to the Annual Energy Base of \$321,000 (fair value - \$348,000) was included in trade and other receivables and as at December 31, 2015, the long-term related party payable relating to the Annual Energy Base of \$476,000 (fair value - \$511,000) was included in trade and other payables.

The fair values of cash and cash equivalents, short-term investments, trade and other receivables, trade and other payables, rental and royalty payable, with the exception of the long-term related party receivable, reserve fund and long-term related party 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:

<i>As at (thousands of Canadian dollars)</i>	Related party	June 30 2016	December 31 2015		
Trade and other receivables:					
Power sales	Hydro-Québec	5,859	15,260		
Power sales	Hydro	8,474	5,160		
Engineering, technical, management, and administrative services	Twin Falls	-	5		
CF Trust receivable	The Trust	142	16		
AEB and other	Hydro-Québec	651	712		
Trade and other payables:					
AEB and other	Hydro-Québec	1,944	1,896		
Engineering, technical, management, and administrative services	Nalcor	756	894		
Rental and royalty payable	The Province	4,693	7,752		
		Three months ended 2016	2015	Six months ended 2016	2015
<i>For the period ended June 30 (thousands of Canadian dollars)</i>					
Power sales:					
Long term power contract	Hydro-Québec	12,693	14,492	37,712	40,704
Long term power contract	Hydro	10,936	10,761	22,491	21,791
Guaranteed winter availability:					
Guaranteed winter availability contract	Hydro-Québec	-	-	21,275	21,758
Operating (recovery) costs:					
Engineering, technical, management, and administrative services	Hydro-Québec	(76)	(376)	(274)	(580)
Engineering, technical, management, and administrative services	Hydro	615	(1,732)	1,145	(1,003)
Rental and royalty expense	The Province	896	980	4,696	4,921
Engineering, technical, management, and administrative services	Other	507	(801)	1,029	(429)
Net finance (income) expense:					
Long-term related party payable/receivable	Hydro-Québec	(10)	57	(15)	120

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

16. COMMITMENTS AND CONTINGENCIES

- (a) Outstanding commitments for capital projects total approximately \$31.8 million as at June 30, 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 Twin Falls and Churchill Falls dated November 15, 1961 giving Twin Falls the right to develop hydroelectric power on the Unknown River expired on December 31, 2014. A sub-lease was signed between Hydro, Churchill Falls and Twin Falls naming Hydro as the sub-lessee of the transmission lines and related assets from Churchill Falls to Labrador West, covering the period of January 1 to June 30, 2015. The term of this Sub-lease has been extended to December 31, 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 June 30, 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.

17. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Three months ended		Six months ended	
	2016	2015	2016	2015
Trade and other receivables	9,017	10,173	6,382	9,837
Inventories	232	(185)	97	(348)
Prepayments	701	610	1,167	1,146
Trade and other payables	8,079	3,478	1,051	(3,844)
Rental and royalty payable	896	979	(3,059)	194
Change in non-cash working capital balances	18,925	15,055	5,638	6,985

18. SUBSEQUENT EVENTS

On August 1, 2016, Churchill Falls received judgment from the Québec Court of Appeal upholding the 2014 Québec Superior Court ruling on the motion filed by Churchill Falls to address the inequities of the pricing terms of the 1969 Power Contract between Churchill Falls and Hydro-Québec. The Court ruled against Churchill Falls and the ruling requires Churchill Falls to pay court costs of \$1.4 million to Hydro-Québec. Churchill Falls is reviewing the decision of the Court of Appeal to determine next steps.

On August 4, 2016, Churchill Falls experienced two separate but related fires in its switchyard which resulted in damage requiring significant equipment replacement through utilization of on-site material and spare equipment. The Company continues to assess the damage and work is underway to bring units that were currently out of service for maintenance and repairs back in service as quickly as possible.

On August 8, 2016, Churchill Falls received judgment from the Québec Superior Court regarding a Motion for Declaratory Judgment filed by Hydro-Québec relating to the interpretation of the 1969 Power Contract between Churchill Falls and Hydro-Québec and the associated Renewal Contract, which commences September 1, 2016. The Court ruled in favour of Hydro-Québec. Churchill Falls is reviewing the decision of the Québec Superior Court to determine next steps.