

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

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

<i>As at (thousands of Canadian dollars)</i>	Notes	<b>September 30</b> <b>2015</b>	December 31 2014
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents		<b>54,541</b>	26,611
Short-term investments		-	5,007
Trade and other receivables		<b>12,638</b>	21,307
Inventories		<b>18,232</b>	17,686
Prepayments		<b>2,651</b>	1,883
<b>Total current assets</b>		<b>88,062</b>	72,494
Non-current assets			
Property, plant and equipment	3	<b>605,283</b>	583,540
Investment in joint venture	4	<b>2,092</b>	2,242
Reserve fund		<b>52,013</b>	51,999
Long-term related party receivable		-	7
<b>Total assets</b>		<b>747,450</b>	710,282
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities			
Trade and other payables		<b>29,075</b>	25,212
Rental and royalty payable		<b>5,291</b>	4,724
Current portion of deferred contributions	5	<b>783</b>	783
<b>Total current liabilities</b>		<b>35,149</b>	30,719
Non-current liabilities			
Deferred contributions	5	<b>12,547</b>	13,134
Decommissioning liabilities	6	<b>1,233</b>	1,197
Long-term related party payable		<b>1,892</b>	1,120
Employee benefits liability		<b>34,501</b>	33,102
<b>Total liabilities</b>		<b>85,322</b>	79,272
Shareholders' equity			
Share capital		<b>82,900</b>	82,900
Shareholder contributions	8	<b>4,947</b>	4,844
Reserves		<b>(10,943)</b>	(10,911)
Retained earnings		<b>585,224</b>	554,177
<b>Total shareholders' equity</b>		<b>662,128</b>	631,010
<b>Total liabilities and shareholders' equity</b>		<b>747,450</b>	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 September 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Nine months ended	
		2015	2014	2015	2014
Power sales		<b>22,302</b>	12,457	<b>84,797</b>	54,166
Guaranteed winter availability		-	-	<b>21,758</b>	19,104
Rental of rights and facilities to Twin Falls		-	183	-	550
Other revenue	5	<b>196</b>	196	<b>587</b>	587
<b>Revenue</b>		<b>22,498</b>	12,836	<b>107,142</b>	74,407
Operating costs	9	<b>17,112</b>	14,967	<b>50,370</b>	46,654
Depreciation	3	<b>5,061</b>	4,804	<b>15,241</b>	14,053
Net finance (income) expense	10	<b>(495)</b>	(404)	<b>(1,251)</b>	(1,454)
Other (income) expense	11	<b>1,012</b>	1,826	<b>1,369</b>	2,630
Share of loss (profit) of joint venture	4	<b>24</b>	(148)	<b>150</b>	(468)
<b>(Loss) profit for the period</b>		<b>(216)</b>	(8,209)	<b>41,263</b>	12,992
<b>Other comprehensive loss for the period</b>		<b>(325)</b>	(252)	<b>(32)</b>	(29)
<b>Total comprehensive (loss) income for the period</b>		<b>(541)</b>	(8,461)	<b>41,231</b>	12,963

*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		-	-	-	-	41,263	41,263
Other comprehensive income							
Net change in fair value of available for sale financial instruments		-	-	15	-	-	15
Net change in fair value of financial instruments reclassified to profit or loss		-	-	(47)	-	-	(47)
<b>Total comprehensive income for the period</b>		-	-	(32)	-	41,263	41,231
Capital contributions	8	-	103	-	-	-	103
Preferred dividends	8	-	-	-	-	(10,216)	(10,216)
<b>Balance at September 30, 2015</b>		<b>82,900</b>	<b>4,947</b>	<b>921</b>	<b>(11,864)</b>	<b>585,224</b>	<b>662,128</b>
Balance at January 1, 2014		82,900	4,605	1,248	(7,587)	533,674	614,840
Profit for the period		-	-	-	-	12,992	12,992
Other comprehensive income							
Net change in fair value of available for sale financial instruments		-	-	319	-	-	319
Net change in fair value of financial instruments reclassified to profit or loss		-	-	(348)	-	-	(348)
<b>Total comprehensive income for the period</b>		-	-	(29)	-	12,992	12,963
Capital contributions			116	-	-	-	116
Preferred dividends	8	-	-	-	-	(5,986)	(5,986)
<b>Balance at September 30, 2014</b>		<b>82,900</b>	<b>4,721</b>	<b>1,219</b>	<b>(7,587)</b>	<b>540,680</b>	<b>621,933</b>

See accompanying notes

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

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Notes	<b>Three months ended</b>		<b>Nine months ended</b>	
		<b>2015</b>	2014	<b>2015</b>	2014
Cash provided from (used in)					
Operating activities					
(Loss) profit for the period		<b>(216)</b>	(8,209)	<b>41,263</b>	12,992
Adjusted for items not involving a cash flow:					
Depreciation	3	<b>5,061</b>	4,804	<b>15,241</b>	14,053
Amortization of deferred contributions	5	<b>(196)</b>	(196)	<b>(587)</b>	(587)
Employee benefits		<b>414</b>	352	<b>1,399</b>	1,298
Accretion of decommissioning liability	6	<b>12</b>	14	<b>36</b>	41
Loss on disposal of property, plant and equipment		<b>425</b>	1,467	<b>439</b>	2,014
Share of loss (profit) of joint venture	4	<b>24</b>	(148)	<b>150</b>	(468)
		<b>5,524</b>	(1,916)	<b>57,941</b>	29,343
Change in non-cash working capital balances	15	<b>4,800</b>	(4,808)	<b>11,785</b>	4,119
<b>Net cash provided from (used in) operating activities</b>		<b>10,324</b>	(6,724)	<b>69,726</b>	33,462
Investing activities					
Additions to property, plant and equipment	3	<b>(21,888)</b>	(14,266)	<b>(37,423)</b>	(37,231)
Decrease in short-term investments		<b>27,523</b>	18,043	<b>5,007</b>	-
(Increase) decrease in reserve fund		<b>(14)</b>	762	<b>(46)</b>	1,139
Proceeds on disposal of property, plant and equipment		-	-	-	4
<b>Net cash provided from (used in) investing activities</b>		<b>5,621</b>	4,539	<b>(32,462)</b>	(36,088)
Financing activities					
Change in long-term related party receivable		<b>4,288</b>	4,993	<b>779</b>	3,083
Increase in contributed capital	8	<b>3</b>	116	<b>103</b>	116
Preferred dividends	8	<b>(3,400)</b>	(1,505)	<b>(10,216)</b>	(5,986)
<b>Net cash provided from (used in) financing activities</b>		<b>891</b>	3,604	<b>(9,334)</b>	(2,787)
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>16,836</b>	1,419	<b>27,930</b>	(5,413)
Cash and cash equivalents, beginning of period		<b>37,705</b>	10,307	<b>26,611</b>	17,139
Cash and cash equivalents, end of period		<b>54,541</b>	11,726	<b>54,541</b>	11,726

Supplementary cash flow information (Note 15)

See accompanying notes

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

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**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
<b>Cost</b>					
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
<b>Additions</b>	<b>(34)</b>	<b>-</b>	<b>-</b>	<b>37,457</b>	<b>37,423</b>
<b>Disposals</b>	<b>(1,148)</b>	<b>(896)</b>	<b>(70)</b>	<b>-</b>	<b>(2,114)</b>
<b>Transfers</b>	<b>499</b>	<b>(38)</b>	<b>2,345</b>	<b>(2,806)</b>	<b>-</b>
<b>Balance at September 30, 2015</b>	<b>759,597</b>	<b>234,159</b>	<b>180,753</b>	<b>53,100</b>	<b>1,227,609</b>
<b>Depreciation</b>					
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
<b>Depreciation expense</b>	<b>7,149</b>	<b>2,543</b>	<b>5,549</b>	<b>-</b>	<b>15,241</b>
<b>Disposals</b>	<b>(920)</b>	<b>(696)</b>	<b>(59)</b>	<b>-</b>	<b>(1,675)</b>
<b>Balance at September 30, 2015</b>	<b>410,895</b>	<b>129,476</b>	<b>81,955</b>	<b>-</b>	<b>622,326</b>
<b>Carrying value</b>					
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
<b>Balance at September 30, 2015</b>	<b>348,702</b>	<b>104,683</b>	<b>98,798</b>	<b>53,100</b>	<b>605,283</b>

**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>	<b>Nine months ended</b>	
	<b>September 30</b>	September 30
	<b>2015</b>	2014
Total assets	7,021	10,120
Total liabilities	742	3,670
Net assets	6,279	6,450
Churchill Falls' share of net assets	2,092	2,150
Total revenue	-	3,678
Total (loss) profit	(449)	1,403
Churchill Falls' share of (loss) profit	(150)	468

**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.

	<b>September 30</b>	December 31
	<b>2015</b>	2014
<i>(thousands of Canadian dollars)</i>		
Deferred contributions, beginning of period	<b>13,917</b>	14,700
Amortization	<b>(587)</b>	(783)
Deferred contributions, end of period	<b>13,330</b>	13,917
Less: current portion	<b>(783)</b>	(783)
	<b>12,547</b>	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:

	<b>September 30</b>	December 31
	<b>2015</b>	2014
<i>(thousands of Canadian dollars)</i>		
Decommissioning liabilities, beginning of period	<b>1,197</b>	1,037
Accretion	<b>36</b>	55
Revisions	<b>-</b>	105
Decommissioning liabilities, end of period	<b>1,233</b>	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 \$1,761,000 (2014 - \$1,820,000) 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 \$760,000 (2014 - \$598,000). 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.

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>2015</b>	2014	<b>2015</b>	2014
<i>For the period ended September 30 (thousands of Canadian dollars)</i>				
Component of benefit cost				
Current service cost	<b>361</b>	285	<b>1,082</b>	857
Interest cost	<b>359</b>	346	<b>1,077</b>	1,039
Total benefit expense for the period	<b>720</b>	631	<b>2,159</b>	1,896



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

**8. SHAREHOLDERS' EQUITY**

**8.1 Shareholder Contributions**

	<b>September 30</b>	December 31
	<b>2015</b>	2014
<i>(thousands of Canadian dollars)</i>		
Total shareholder contributions	<b>4,947</b>	4,844

During 2015, the Churchill Falls (Labrador) Corporation Trust (the Trust) contributed capital of \$103,000 (2014 - \$239,000).

**8.2 Dividends Paid and Proposed**

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>2015</b>	2014	<b>2015</b>	2014
<i>For the period ended September 30 (thousands of Canadian dollars)</i>				
Declared during the period				
Final preferred (overpayment) dividend for prior period	-	-	<b>(26)</b>	573
Interim preferred dividend for current period	<b>3,400</b>	1,505	<b>10,242</b>	5,413
	<b>3,400</b>	1,505	<b>10,216</b>	5,986

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

**9. OPERATING COSTS**

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>2015</b>	2014	<b>2015</b>	2014
<i>For the period ended September 30 (thousands of Canadian dollars)</i>				
Salaries and benefits	<b>10,653</b>	10,614	<b>30,311</b>	28,582
Rental and royalty expense	<b>370</b>	(368)	<b>5,291</b>	2,695
Maintenance and materials	<b>3,726</b>	3,482	<b>7,114</b>	7,739
Professional services	<b>1,915</b>	1,348	<b>3,751</b>	3,753
Other operating costs	<b>448</b>	(109)	<b>3,903</b>	3,885
	<b>17,112</b>	14,967	<b>50,370</b>	46,654

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

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

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>2015</b>	2014	<b>2015</b>	2014
Finance income				
Interest on short-term investments	<b>102</b>	37	<b>240</b>	126
Interest on reserve fund	<b>345</b>	540	<b>1,033</b>	1,608
Other interest income	<b>18</b>	20	<b>110</b>	64
	<b>465</b>	597	<b>1,383</b>	1,798
Finance expense				
Net interest on long-term related party (receivable) payable	<b>(61)</b>	167	<b>59</b>	272
Accretion of decommissioning liability	<b>12</b>	14	<b>36</b>	41
Other interest expense	<b>19</b>	12	<b>37</b>	31
	<b>(30)</b>	193	<b>132</b>	344
Net finance (income) expense	<b>(495)</b>	(404)	<b>(1,251)</b>	(1,454)

**11. OTHER (INCOME) EXPENSE**

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>2015</b>	2014	<b>2015</b>	2014
Loss on disposal of assets	<b>1,011</b>	1,826	<b>1,317</b>	2,632
Loss (gain) on foreign exchange	<b>1</b>	-	<b>52</b>	(2)
Other (income) expense	<b>1,012</b>	1,826	<b>1,369</b>	2,630

**12. FINANCIAL INSTRUMENTS**

**Fair Value**

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

**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 period ended September 30, 2015 and the year ended December 31, 2014.

As at September 30, 2015 and December 31, 2014, Churchill Falls did not have any Level 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		September 30, 2015		December 31, 2014	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Cash and cash equivalents	1	54,541	54,541	26,611	26,611
Short-term investments	1	-	-	5,007	5,007
Trade and other receivables	1	12,638	12,638	21,307	21,307
Long-term related party receivable	2	-	-	7	7
Reserve fund	2	52,013	52,013	51,999	51,999
Financial liabilities					
Trade and other payables	1	29,075	29,075	25,212	25,212
Rental and royalty payable	1	5,291	5,291	4,724	4,724
Long-term related party payable	2	1,892	2,035	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>				
<b>Nine Months Ended September 30, 2015</b>				
Power sales	<b>52,320</b>	<b>32,477</b>	-	<b>84,797</b>
Guaranteed winter availability	<b>21,758</b>	-	-	<b>21,758</b>
Operating (recoveries) costs	-	<b>(1,576)</b>	<b>4,656</b>	<b>3,080</b>
Net finance (income) expense	<b>59</b>	-	-	<b>59</b>
Trade and other receivables	<b>6,233</b>	<b>4,179</b>	<b>60</b>	<b>10,472</b>
Trade and other payables	<b>1,796</b>	-	<b>699</b>	<b>2,495</b>
Rental and royalty payable	-	-	<b>5,291</b>	<b>5,291</b>
Long-term related party payable	<b>1,892</b>	-	-	<b>1,892</b>
<i>(thousands of Canadian dollars)</i>				
<b>Nine Months Ended September 30, 2014</b>				
Power sales	48,887	4,543	736	54,166
Guaranteed winter availability	19,104	-	-	19,104
Rental of rights and facilities to Twin Falls	-	-	550	550
Operating costs	-	2,209	3,872	6,081
Net finance (income) expense	273	-	-	273
Trade and other receivables	5,997	381	1,833	8,211
Trade and other payables	1,921	-	1,184	3,105
Rental and royalty payable	-	-	2,695	2,695
Long-term related party payable	3,243	-	-	3,243

**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 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, 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 September 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 September 30 (thousands of Canadian dollars)</i>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>2015</b>	2014	<b>2015</b>	2014
Trade and other receivables	<b>(1,168)</b>	(1,648)	<b>8,669</b>	8,518
Inventories	<b>(198)</b>	(260)	<b>(546)</b>	(600)
Prepayments	<b>(1,914)</b>	(2,059)	<b>(768)</b>	(827)
Trade and other payables	<b>7,707</b>	(473)	<b>3,863</b>	(73)
Rental and royalty payable	<b>373</b>	(368)	<b>567</b>	(2,899)
Change in non-cash working capital balances	<b>4,800</b>	(4,808)	<b>11,785</b>	4,119
Interest received	<b>458</b>	1,394	<b>1,639</b>	2,946
Interest paid	<b>38</b>	65	<b>134</b>	217

**16. COMPARATIVE FIGURES**

Certain of the comparative figures have been reclassified to conform with presentation adopted during the current reporting period. Specifically, foreign exchange gains and losses, previously reported in net finance (income) expense, have been presented with other (income) expense.