CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED
FINANCIAL STATEMENTS
December 31, 2015

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Independent Auditor's Report

To the Shareholders of Churchill Falls (Labrador) Corporation Limited

We have audited the accompanying financial statements of Churchill Falls (Labrador) Corporation Limited, which comprise the statement of financial position as at December 31, 2015 and the statements of profit and comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Churchill Falls (Labrador) Corporation Limited as at December 31, 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants
March 11, 2016

CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED
STATEMENT OF FINANCIAL POSITION

As at December 31 (thousands of Canadian dollars)	Notes	**2015**	2014
			(Note 25)
ASSETS			
Current assets			
Cash and cash equivalents	5	**54,924**	26,611
Short-term investments		**-**	5,007
Trade and other receivables	6	**23,782**	21,307
Inventories	7	**18,753**	17,686
Prepayments		**1,932**	1,883
Total current assets		**99,391**	72,494
Non-current assets			
Property, plant and equipment	8	**615,457**	582,970
Intangible assets	9	**668**	570
Investment in joint venture	10	**1,853**	2,242
Reserve fund	11	**47,015**	51,999
Long-term related party receivable		**7**	7
Total assets		**764,391**	710,282
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	12	**27,841**	25,212
Rental and royalty payable		**7,752**	4,724
Current portion of deferred contributions	13	**783**	783
Total current liabilities		**36,376**	30,719
Non-current liabilities			
Deferred contributions	13	**12,351**	13,134
Decommissioning liabilities	14	**1,296**	1,197
Long-term related party payable		**-**	1,120
Employee benefits liability	15	**31,339**	33,102
Total liabilities		**81,362**	79,272
Shareholders' equity			
Share capital	16	**82,900**	82,900
Shareholder contributions	16	**4,966**	4,844
Reserves		**(7,205)**	(10,911)
Retained earnings		**602,368**	554,177
Total equity		**683,029**	631,010
Total liabilities and equity		**764,391**	710,282

Commitments and contingencies (Note 22)

See accompanying notes

On behalf of the Board:

DIRECTOR

DIRECTOR

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

For the year ended December 31 (thousands of Canadian dollars)	Notes	**2015**	2014
Power sales		**116,525**	77,166
Guaranteed winter availability		**36,637**	32,141
Rental of rights and facilities to Twin Falls		**-**	735
Other revenue	13	**783**	783
Revenue		**153,945**	110,825
Operating costs	17	**69,178**	62,929
Depreciation and amortization	8,9	**21,239**	19,234
Net finance (income) expense	18	**(1,640)**	(1,800)
Other (income) expense	19	**2,871**	2,720
Share of loss (profit) of joint venture	10	**389**	(560)
Profit for the year		**61,908**	28,302
Other comprehensive income (loss) for the year		**3,706**	(4,572)
Total comprehensive income for the year		**65,614**	23,730

See accompanying notes

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

(thousands of Canadian dollars)	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 year		**-**	**-**	**-**	**-**	**61,908**	**61,908**
Other comprehensive income							
Net change in fair value of available for sale financial instruments[1]		**-**	**-**	**(10)**	**-**	**-**	**(10)**
Net change in fair value of financial instruments reclassified to profit or loss		**-**	**-**	**(92)**	**-**	**-**	**(92)**
Actuarial gain on employee benefits liability[2]	**15**	**-**	**-**	**-**	**3,808**	**-**	**3,808**
Total comprehensive (loss) income for the year		**-**	**-**	**(102)**	**3,808**	**61,908**	**65,614**
Shareholder contributions	**16**	**-**	**122**	**-**	**-**	**-**	**122**
Preferred dividends	**16**	**-**	**-**	**-**	**-**	**(13,717)**	**(13,717)**
Balance at December 31, 2015		**82,900**	**4,966**	**851**	**(8,056)**	**602,368**	**683,029**
Balance at January 1, 2014		82,900	4,605	1,248	(7,587)	533,674	614,840
Profit for the year		-	-	-	-	28,302	28,302
Other comprehensive income							
Net change in fair value of available for sale financial instruments[1]		-	-	99	-	-	99
Net change in fair value of financial instruments reclassified to profit or loss		-	-	(394)	-	-	(394)
Actuarial loss on employee benefits liability[2]	15	-	-	-	(4,277)	-	(4,277)
Total comprehensive (loss) income for the year		-	-	(295)	(4,277)	28,302	23,730
Shareholder contributions	16	-	239	-	-	-	239
Preferred dividends	16	-	-	-	-	(7,799)	(7,799)
Balance at December 31, 2014		82,900	4,844	953	(11,864)	554,177	631,010

[1]Subsequently reclassified to profit or loss on derecognition
[2]Not subsequently reclassified to profit or loss

See accompanying notes

CHURCHILL FALLS (LABRADOR) CORPORATION
STATEMENT OF CASH FLOWS

For the year ended December 31 (thousands of Canadian dollars)	Notes	**2015**	2014
Cash provided from (used in)			
Operating activities			
Profit for the year		**61,908**	28,302
Adjusted for items not involving a cash flow:			
Depreciation and amortization	8,9	**21,239**	19,234
Amortization of deferred contributions	13	**(783)**	(783)
Employee benefits		**2,045**	1,869
Loss on disposal of property, plant and equipment	19	**1,064**	1,068
Accretion of decommissioning liability	14	**48**	55
Share of loss (profit) of joint venture	10	**389**	(560)
		85,910	49,185
Changes in non-cash working capital balances	24	**2,066**	(2,562)
Net cash provided from operating activities		**87,976**	46,623
Investing activities			
Additions to property, plant and equipment	8	**(54,738)**	(49,865)
Additions to intangible assets	9	**(217)**	(165)
Decrease (increase) in short-term investments		**5,007**	(5,007)
Withdrawals from reserve fund	11	**4,973**	24,848
Net discount on reserve fund	11	**(91)**	(394)
Proceeds on disposal of property, plant and equipment		**118**	39
Net cash used in investing activities		**(44,948)**	(30,544)
Financing activities			
(Decrease) increase in long-term related party payable		**(1,120)**	953
Increase in shareholder contributions	16	**122**	239
Preferred dividends	16	**(13,717)**	(7,799)
Net cash used in financing activities		**(14,715)**	(6,607)
Net increase in cash and cash equivalents		**28,313**	9,472
Cash and cash equivalents, beginning of year		**26,611**	17,139
Cash and cash equivalents, end of year		**54,924**	26,611

Supplementary cash flow information (Note 24)

See accompanying notes

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. The head and corporate office for Churchill Falls is located in St. John's, Newfoundland and Labrador. 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.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance and Basis of Measurement

These annual audited financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Churchill Falls has adopted accounting policies which are based on the IFRS applicable as at December 31, 2015, and include individual IFRS, International Accounting Standards (IAS), and interpretations made by the IFRS Interpretations Committee and the Standing Interpretations Committee.

These annual audited 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 annual audited financial statements are presented in Canadian Dollars and all values rounded to the nearest thousand, except when otherwise noted. The annual audited financial statements were approved by Churchill Falls' Board of Directors on February 26, 2016.

2.2 Cash and Cash Equivalents and Short-term Investments

Cash and cash equivalents consist of amounts on deposit with a Schedule 1 Canadian Chartered bank, as well as highly liquid investments with maturities of three months or less. Investments with maturities greater than three months and less than twelve months are classified as short-term investments. At December 31, 2015 there were no cash equivalents or short-term investments (2014 - $12,513). Cash and cash equivalents are measured at cost, which approximates fair value, while short-term investments are measured at fair value.

2.3 Trade and Other Receivables

Trade and other receivables are classified as loans and receivables and are measured at amortized cost using the effective interest method.

2.4 Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes expenditures incurred in acquiring the inventories and bringing them to their existing condition and location. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

2.5 Property, Plant and Equipment

Items of property, plant and equipment are recognized using the cost model and thus are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes materials, labour, contracted services, professional fees and, for qualifying assets, borrowing costs capitalized in accordance with Churchill Falls' accounting policy outlined in Note 2.7. Costs capitalized with the related asset include all those costs directly attributable to bringing the asset into operation. When significant parts of property, plant and equipment are required to be replaced at intervals, Churchill Falls recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repairs and maintenance costs are recognized in the Statement of Profit and Comprehensive Income as incurred. Property, plant and equipment are not revalued for financial reporting purposes. Depreciation of these assets commences when the assets are ready for their intended use.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Hydroelectric generation plant	45 to 100 years
Transmission and terminals	30 to 65 years
Service facilities and other	5 to 45 years

The assets' residual values, useful lives and method of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate. The carrying value of property, plant and equipment is reviewed for impairment whenever events indicate that the carrying amounts of those assets may not be recoverable**.**

2.6 Intangible Assets

Intangible assets that are expected to generate future economic benefit and are measurable, including computer software costs, costs of technical services, and studies are capitalized as intangible assets in accordance with IAS 38.

Intangible assets with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. The estimated useful life and amortization method are reviewed at the end of each year, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

Amortization is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Computer software	5 to 45 years

2.7 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in the Statement of Profit and Comprehensive Income in the period in which they are incurred.

2.8 Impairment of Non-Financial Assets

At the end of each reporting period, Churchill Falls reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Where it is not possible to estimate the recoverable amount of an individual asset, Churchill Falls estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from non-financial assets.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the Statement of Profit and Comprehensive Income.

2.9 Investment in Joint Venture

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Control exists when Churchill Falls has the power, directly or indirectly, to govern the financial and operating policies of another entity, so as to obtain benefits from its activities. Churchill Falls holds 33.33% of the equity share capital of Twin Falls Power Corporation Limited (Twin Falls) and is a party with other shareholders in a participation agreement which gives Churchill Falls joint control of Twin Falls. This investment is accounted for using the equity method. Under the equity method, the interest in the joint venture is carried in the Statement of Financial Position at cost plus post acquisition changes in Churchill Falls’ share of net assets of the joint venture. The Statement of Profit and Comprehensive Income reflects Churchill Falls’ share of the profit or loss of the joint venture.

2.10 Employee Benefits Liability

(i) Pension Plan

Employees participate in the Province’s Public Service Pension Plan, a multi-employer defined benefit plan. Contributions by Churchill Falls to this Plan are recognized as an expense when employees have rendered service entitling them to the contributions. Liabilities associated with this Plan are held with the Province.

(ii) Other Benefits

Churchill Falls provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a severance payment upon retirement.

The cost of providing these benefits is determined using the projected unit credit method, with actuarial valuations being completed every three years and extrapolated at the end of each reporting period based on service and management’s best estimate of salary escalation, retirement ages of employees and expected health care costs.

Actuarial gains and losses on Churchill Falls’ defined benefit obligation are recognized in reserves in the period in which they occur. Past service costs are recognized in operating costs as incurred.

The retirement benefit obligation recognized in the Statement of Financial Position represents the present value of the defined benefit obligation.

2.11 Provisions

A provision is a liability of uncertain timing or amount. A provision is recognized if Churchill Falls has a present legal obligation or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. The provision is measured at the present value of the best estimate of the expenditures expected to be required to settle the obligation using a discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. Provisions are re-measured at each Statement of Financial Position date using the current discount rate.

2.12 Decommissioning, Restoration and Environmental Liabilities

Legal and constructive obligations associated with the retirement of property, plant and equipment are recorded as liabilities when those obligations are incurred and are measured as the present value of the expected costs to settle the liability, discounted at a rate specific to the liability. The liability is accreted up to the date the liability will be incurred with a corresponding charge to net finance (income) expense. The carrying amount of decommissioning, restoration and environmental liabilities is reviewed annually with changes in the estimates of timing or amount of cash flows added to or deducted from the cost of the related asset or expensed in the Statement of Profit and Comprehensive Income if the liability is short-term in nature.

2.13 Revenue Recognition

Revenue from the sale of energy is recognized when Churchill Falls has transferred the significant risks and rewards of ownership to the buyer, recovery of the consideration is probable, and the amount of revenue can be reliably measured. Sales within the Province are primarily at rates approved by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB), whereas export sales and sales to certain major industrial customers are either at rates under the terms of the applicable contracts, or at market rates.

Churchill Falls provides energy to two primary customers: Hydro-Québec and Hydro.

A power contract with Hydro-Québec dated May 12, 1969 (the Power Contract) provides for the sale of a significant amount of the energy from Churchill Falls. The Power Contract has a 40-year term ending in 2016, which is followed by a Renewed Power Contract with Hydro-Québec for an additional 25 years. The rate is predetermined in the Power Contract and is presently 2.5426 mills per kWh. The rate during the term of the Renewed Power Contract is 2.0 mills per kWh.

Churchill Falls also recognizes revenue from Hydro-Québec under a Guaranteed Winter Availability Contract (GWAC) through 2041. The GWAC was signed with Hydro-Québec in 1998 and provides for the sale of 682 MW of guaranteed seasonal availability to Hydro-Québec during the months of November through March in each of the remaining years until 2041.

The value of differences between energy delivered and the Annual Energy Base (AEB), as defined in the Power Contract, is tracked over a four-year period and then either recovered from or refunded to Hydro-Québec over the subsequent four-year period, unless the balance is less than $1.0 million in which case it is recovered or refunded immediately. These long-term receivables or long-term payables are subject to interest at 7% per annum (2014 - 7%).

Under the Power Contract and Renewed Power Contract, Churchill Falls has the right to recall 300 MW (Recall Power). All of the Recall Power is sold by Churchill Falls to Hydro. Churchill Falls also provides 225 MW to Hydro.

2.14 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

<u>Lessor accounting</u>

Amounts due from lessees under finance leases are recognized as receivables at the amount of Churchill Falls' net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on Churchill Falls' net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Lessee accounting
Assets held under finance leases are initially recognized as assets of Churchill Falls' at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with Churchill Falls' general policy on borrowing costs (Note 2.7). Contingent rental costs are recognized as operating costs in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2.15 Net Finance (Income) Expense

For all financial instruments measured at amortized cost and interest bearing financial assets classified as (AFS), interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

2.16 Foreign Currencies

Transactions in currencies other than Churchill Falls' functional currency (foreign currencies) are recognized using the exchange rate in effect at the date of the transaction, approximated by the prior month end close rate. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates of exchange in effect at the period end date. Foreign exchange gains and losses are included in the Statement of Profit and Comprehensive Income as other income (expense).

2.17 Income Taxes

Churchill Falls is exempt from paying income taxes under Section 149(1) (d.2) of the Income Tax Act.

2.18 Financial Instruments

Financial assets and financial liabilities are recognized in the Statement of Financial Position when Churchill Falls becomes a party to the contractual provisions of the instrument and are initially measured at fair value. Subsequent measurement is based on classification. Financial instruments are classified into the following specified categories: financial assets at fair value through profit or loss (FVTPL), AFS financial assets, loans and receivables, held-to-maturity investments, financial liabilities at FVTPL, financial instruments used for hedging and other financial liabilities. The classification depends on the nature and purpose of the financial instruments and is determined at the time of initial recognition.

Classification of Financial Instruments

Churchill Falls has classified each of its financial instruments into the following categories: loans and receivables, AFS financial assets, and other financial liabilities.

Cash and cash equivalents	Loans and receivables
Short-term investments	AFS financial assets
Trade and other receivables	Loans and receivables
Reserve fund	AFS financial assets
Long-term related party receivable	Loans and receivables
Trade and other payables	Other financial liabilities
Rental and royalty payable	Other financial liabilities
Long-term related party payable	Other financial liabilities

(i) Effective Interest Method

The effective interest method is a method of calculating the amortized cost of a financial instrument and allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income or expense is recognized on an effective interest basis for financial instruments other than those financial assets or liabilities classified as at FVTPL.

Financial Assets

(ii) AFS Financial Assets

AFS financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the previous categories. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the fair value reserve with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified to profit or loss.

(iii) Loans and Receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Financial Liabilities and Equity Instruments

(iv) Other Financial Liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

2.19 Derecognition of Financial Instruments

Churchill Falls derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If Churchill Falls neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, its retained interest in the asset and an associated liability for amounts it may have to pay is recognized. If Churchill Falls retains substantially all the risks and rewards of ownership of a transferred financial asset, it continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received. Churchill Falls derecognizes financial liabilities when, and only when, its obligations are discharged, cancelled or they expire.

2.20 Impairment of Financial Assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Evidence of impairment could include:
- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- the borrower, more probable than not, entering into bankruptcy or financial re-organization

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include Churchill Falls' past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income (loss) are reclassified to profit or loss in the period.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

2.21 Government Grants

Government grants are recognized when there is reasonable assurance that Churchill Falls will comply with the associated conditions and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which Churchill Falls recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that Churchill Falls should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue in the Statements of Financial Position and transferred to the Statement of Profit and Comprehensive Income on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to Churchill Falls with no future related costs are recognized in the Statement of Profit and Comprehensive Income in the period in which they become receivable.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the annual audited financial statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ materially from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is reviewed if the revision affects only that period or in future periods.

3.1 Use of Estimates

(i) Property, Plant and Equipment
Amounts recorded for depreciation are based on the useful lives of Churchill Falls' assets. The useful lives of property, plant and equipment are determined by independent specialists and reviewed annually by Churchill Falls. These useful lives are Management's best estimate of the service lives of these assets. Changes to these lives could materially affect the amount of depreciation recorded.

(ii) Decommissioning Liabilities
Churchill Falls recognizes a liability for the fair value of the future expenditures required to settle obligations associated with the retirement of property, plant and equipment. Decommissioning liabilities are recorded as a liability at fair value, with a corresponding increase to property, plant and equipment. Accretion of decommissioning liabilities is included in the Statement of Profit and Comprehensive Income through net finance (income) expense. Differences between the recorded decommissioning liabilities and the actual decommissioning costs incurred are recorded as a gain or loss in the settlement period.

(iii) Employee Benefits
Churchill Falls provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a severance payment upon retirement. The expected cost of providing these other employee benefits is accounted for on an accrual basis, and has been actuarially determined using the projected unit credit method prorated on service, and Management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

(iv) Revenue
In the absence of a signed agreement with Hydro-Québec relating to the Annual Energy Base (AEB), Churchill Falls continues to apply the terms of the previous agreement which expired August 31, 2012. Management continues to work to negotiate terms of a new agreement.

3.2 Use of Judgment

Property, Plant and Equipment
Churchill Falls' accounting policy relating to property, plant and equipment is described in Note 2.5. In applying this policy, judgment is used in determining whether certain costs are additions to the carrying amount of the property, plant and equipment as opposed to repairs and maintenance. If an asset has been developed, judgment is required to identify the point at which the asset is capable of being used as intended and to identify the directly attributable borrowing costs to be included in the carrying value of the development asset. Judgment is also used in determining the appropriate componentization structure for Churchill Falls' property, plant and equipment.

4. FUTURE CHANGES IN ACCOUNTING POLICIES

Churchill Falls has not applied the following new and revised IFRS that have been issued but are not yet effective:

Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[1]
Amendments to IAS 1	Disclosure Initiative[1]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception[1]
IFRS 9	Financial Instruments[2]
IFRS 15	Revenue from Contracts with Customers[2]
IFRS 16	Leases[3]

[1]Effective for annual periods beginning on or after January 1, 2016, with earlier application permitted.
[2]Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.
[3]Effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

4.1 Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations

The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (i.e. IAS 36 Impairment of Assets regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

Management does not anticipate that the application of these amendments to IFRS 11 will have a material impact on Churchill Falls' annual financial statements.

4.2 Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 give some guidance on how to apply the concept of materiality in practice. Management does not anticipate that the application of these amendments to IAS 1 will have a material impact on Churchill Falls' annual audited financial statements.

4.3 Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization

The amendments to IAS 16 prohibit entities from using revenue-based depreciation methods for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

(a) when the intangible asset is expressed as a measure of revenue, or
(b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after January 1, 2016. Currently, the Company uses the straight-line methods for depreciation and amortization of its property, plant and equipment, and intangible assets respectively.

Management believes that the straight-line method is the most appropriate method to reflect the consumption of economic benefit inherent in the respective assets and accordingly does not anticipate that the application of these amendments to IAS 16 and IAS 38 will have a material impact on Churchill Falls' annual audited financial statements.

4.4 Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a single sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investor's interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investor's interest in the new associate or joint venture.

Management does not anticipate that the application of these amendments to IFRS 10 and IAS 28 will have a material impact on Churchill Falls' annual audited financial statements in future periods should such transactions arise.

4.5 Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. The amendments further clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.

Management does not anticipate that the application of these amendments to IFRS 10, IFRS 12 and IAS 28 will have a material impact on Churchill Falls' annual audited financial statements as Churchill Falls' not an investment entity and does not have any holding company, subsidiary, associate or joint venture that qualifies as an investment entity.

4.6 IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include:

a) impairment requirements for financial assets; and
b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortized cost or fair value. Specifically, debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt instruments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- With regard to the measurement of financial liabilities designated as at FVTPL, IFRS 9 requires that the amount of change in the fair value of the financial liability attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Management anticipates that the application of IFRS 9 in the future may have a material impact on the amounts reported and disclosures made in Churchill Falls' annual audited financial statements; however, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until Management performs a detailed review.

4.7 IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a five-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Management anticipates that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in Churchill Falls' annual audited financial statements; however, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until Management performs a detailed review.

4.8 IFRS 16 Leases

On January 13, 2016, the IASB issued IFRS 16 which provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS 17 Leases and its associated interpretive guidance. Significant changes were made to lessee accounting with the distinction between operating and finance leases removed and assets and liabilities recognized in respect of all leases (subject to limited exceptions for short-term leases and leases of low value assets). In contrast, IFRS 16 does not include significant changes to the requirements for lessors. IFRS 16 is effective January 1, 2019 with earlier application permitted for companies that have also adopted IFRS 15 Revenue from Contracts with Customers.

Management anticipates that the application of IFRS 16 in the future may have a material impact on the amounts reported and disclosures made in Churchill Falls' annual audited financial statements; however, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until Management performs a detailed review.

5. CASH AND CASH EQUIVALENTS

As at December 31 (thousands of Canadian dollars)	**2015**	2014
Cash	**54,924**	19,105
Cash equivalents	**-**	7,506
	54,924	26,611

The effective interest rate on cash equivalents and short-term investments at December 31, 2015 ranged from 1.21% to 1.23% (2014 - 1.21% to 1.23%) per annum.

6. TRADE AND OTHER RECEIVABLES

As at December 31 (thousands of Canadian dollars)	**2015**	2014
Due from related parties	**21,200**	19,236
Other receivables	**2,582**	2,071
	23,782	21,307

As at December 31 (thousands of Canadian dollars)	**2015**	2014
0-60 days	**22,801**	21,193
60+ days	**981**	114
	23,782	21,307

7. INVENTORIES

As at December 31 (thousands of Canadian dollars)	**2015**	2014
Materials and other	**15,938**	14,879
Construction aggregates	**2,701**	2,701
Fuel	**114**	106
	18,753	17,686

The cost of inventories recognized as an expense during the year is $2.8 million (2014 - $2.1 million).

8. PROPERTY, PLANT AND EQUIPMENT

(thousands of Canadian dollars)	Hydroelectric Generation Plant	Transmission and Terminals	Service Facilities and Other	Construction in Progress	Total
Cost					
Balance at January 1, 2014	740,861	225,140	166,629	12,912	1,145,542
Additions	(116)	(89)	(48)	50,118	49,865
Decommissioning liabilities and revisions	-	105	-	-	105
Disposals	(2,610)	(605)	(1,018)	-	(4,233)
Transfers	22,145	10,542	11,894	(44,581)	-
Balance at December 31, 2014	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**
Depreciation					
Balance at January 1, 2014	397,164	125,320	69,812	-	592,296
Depreciation	9,276	2,776	7,087	-	19,139
Disposals	(1,774)	(467)	(885)	-	(3,126)
Balance at December 31, 2014	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**
Carrying value					
Balance at January 1, 2014	343,697	99,820	96,817	12,912	553,246
Balance at December 31, 2014	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**

9. INTANGIBLE ASSETS

(thousands of Canadian dollars)	Software
Cost	
Balance at January 1, 2014	856
Additions	165
Decommissioning liability revisions	-
Disposals	-
Balance at December 31, 2014	1,021
Additions	**217**
Disposals	**-**
Balance at December 31, 2015	**1,238**
Amortization	
Balance at January 1, 2014	356
Amortization	95
Disposals	-
Transfers	-
Balance at December 31, 2014	451
Amortization	**119**
Disposals	**-**
Balance at December 31, 2015	**570**
Carrying value	
Balance at January 1, 2014	500
Balance at December 31, 2014	570
Balance at December 31, 2015	**668**

Intangible assets consist of computer software costs, amortized on a straight-line basis over their finite useful lives ranging between 7 and 10 years.

10. 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 year.

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

(thousands of Canadian dollars)	**2015**	2014
Current assets	**5,898**	10,325
Non-current assets	**346**	388
Current liabilities	**630**	3,885
Non-current liabilities	**53**	100
Net assets	**5,561**	6,728
Churchill Falls' share of net assets	**1,853**	2,242
Total revenue	**-**	4,904
Total (loss) profit	**(1,167)**	1,681
Churchill Falls' share of (loss) profit	**(389)**	560

The above amounts of assets and liabilities include the following:

Cash and cash equivalents	**5,558**	1,369

11. RESERVE FUND

In 2007, and pursuant to the terms of the Shareholders' Agreement, Churchill Falls commenced the creation of a $75.0 million segregated reserve fund to contribute towards the funding of capital expenditures related to Churchill Falls' existing facilities and their replacement. Churchill Falls invested $17.0 million in each of 2007, 2008 and 2009 and $8.0 million in each of 2010, 2011 and 2012. In October 2014, $23.4 million was withdrawn to fund a portion of 2014 capital expenditures. In December 2015, $5.0 million was withdrawn to fund a portion of 2015 capital expenditures. As per the terms of the Shareholders' Agreement, these funds will be replaced over a five year period beginning in 2017.

This fund must remain in place until the end of the Shareholders' Agreement in 2041. Any amounts removed to fund capital expenditures must be replaced. Reserve fund holdings consist of securities issued by the Government of Canada, various provinces of Canada and Schedule 1 and 2 Canadian Chartered Banks.

The reserve fund consists of the following:

As at December 31 (thousands of Canadian dollars)	**2015**	2014
Balance, beginning of year	**51,999**	76,748
Principal withdrawals	**(4,972)**	(23,358)
Earnings withdrawn	**(1)**	(1,490)
Net discount	**91**	394
Mark-to-market adjustment	**(102)**	(295)
Fair value of reserve fund	**47,015**	51,999

12. TRADE AND OTHER PAYABLES

As at December 31 (thousands of Canadian dollars)	**2015**	2014
Trade payables	**23,601**	21,411
Payables due to related parties	**2,790**	2,812
Other payables	**1,450**	989
	27,841	25,212

13. 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.

As at December 31 (thousands of Canadian dollars)	**2015**	2014
Deferred contributions, beginning of year	**13,917**	14,700
Amortization	**(783)**	(783)
Deferred contributions, end of year	**13,134**	13,917
Less: current portion	**(783)**	(783)
	12,351	13,134

14. 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 for December 31, 2015 and December 31, 2014 are as follows:

As at December 31 (thousands of Canadian dollars)	**2015**	2014
Decommissioning liabilities, beginning of year	**1,197**	1,037
Accretion	**48**	55
Revisions	**51**	105
Decommissioning liabilities, end of year	**1,296**	1,197

The total estimated undiscounted cash flows required to settle the PCB obligations at December 31, 2015 are $1.3 million (2014 - $1.3 million). The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at the Company's credit adjusted risk free rate of 3.8% (2014 - 4.6%).

15. EMPLOYEE BENEFITS LIABILITY

15.1 Pension Plan

Employees participate in the Province’s Public Service Pension Plan, a multi-employer defined benefit plan. The employer’s contributions of $2,400,000 (2014 - $1,699,000) are expensed as incurred.

15.2 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 future benefits were $831,000 (2014 - $661,000). An actuarial valuation was performed as at December 31, 2015.

As at December 31 (thousands of Canadian dollars)	**2015**	2014
Accrued benefit obligation		
Balance, beginning of year	**33,102**	26,956
Current service cost	**1,443**	1,143
Interest cost	**1,433**	1,387
Benefits paid	**(831)**	(661)
Actuarial (gain) loss	**(3,808)**	4,277
Balance, end of year	**31,339**	33,102

For the year ended December 31 (thousands of Canadian dollars)	**2015**	2014
Component of benefit cost		
Current service cost	**1,443**	1,143
Interest cost	**1,433**	1,387
Total benefit expense for the year	**2,876**	2,530

The significant actuarial assumptions used in measuring the accrued benefit obligations and benefit expenses are as follows:

	2015	2014
Discount rate - benefit cost	**4.20%**	5.00%
Discount rate - accrued benefit obligation	**4.10%**	4.20%
Rate of compensation increase	**3.50%**	3.50%

Assumed healthcare trend rates:

	2015	2014
Initial healthcare expense trend rate	**6.00%**	6.00%
Cost trend decline to	**4.50%**	4.50%
Year that rate reaches the rate it is assumed to remain at	**2025**	2020

A 1% change in assumed healthcare trend rates would have had the following effects:

Increase (thousands of Canadian dollars)	**2015**	2014
Current service and interest cost	**682**	578
Accrued benefit obligation	**6,165**	7,432

Decrease (thousands of Canadian dollars)	**2015**	2014
Current service and interest cost	**(484)**	(417)
Accrued benefit obligation	**(4,602)**	(5,506)

16. SHAREHOLDERS' EQUITY

16.1 Share Capital

As at December 31 (thousands of Canadian dollars)	**2015**	2014
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	**-**	-

Additional shares cannot be issued without the approval of a majority of the directors on the Board of Directors, including at least one director nominated by Hydro and one director nominated by Hydro-Québec.

The preferred shares are divided into three classes, one of each has been issued, and the dividends thereon, which rank ahead of dividends on common shares, are as follows:

The Class A Cumulative Preferred Shareholder is entitled to dividend payments calculated as the amount equal to the income taxes which would have been received by the Province had Churchill Falls continued to be a taxable corporation.

The Class B and Class C Redeemable Cumulative Preferred Shareholders are no longer entitled to receive dividends.

16.2 Shareholder Contributions

As at December 31 (thousands of Canadian dollars)	**2015**	2014
Total shareholder contributions	**4,966**	4,844

During 2015, the Churchill Falls (Labrador) Corporation Trust (the Trust) contributed capital of $122,000 (2014 - $239,000).

16.3 Dividends Paid and Proposed

For the year ended December 31 (thousands of Canadian dollars)	**2015**	2014
Declared during the year		
Final preferred dividend for prior year	**(26)**	573
Interim preferred dividend for current year	**13,743**	7,226
	13,717	7,799
Proposed for approval, not recognized as payable (receivable) at December 31		
Final dividend underpayment (overpayment) for current year	**1,243**	(26)

During 2015, Churchill Falls did not pay any common dividends (2014 - $Nil).

17. OPERATING COSTS

For the year ended December 31 (thousands of Canadian dollars)	**2015**	2014
Salaries and benefits expense	**39,114**	37,493
Rental and royalty expense	**7,754**	4,726
Professional services	**6,350**	5,451
Maintenance and materials	**10,208**	11,156
Other operating costs	**5,752**	4,103
	69,178	62,929

18. NET FINANCE (INCOME) EXPENSE

For the year ended December 31 (thousands of Canadian dollars)	**2015**	2014
Finance income		
Interest on short-term investments	**281**	131
Interest on reserve fund	**1,365**	2,012
Other interest income	**155**	54
	1,801	2,197
Finance expense		
Net interest on long-term related party payable	**60**	342
Accretion of decommissioning liability	**48**	55
Other interest expense	**53**	-
	161	397
Net finance (income) expense	**(1,640)**	(1,800)

19. OTHER (INCOME) EXPENSE

For the year ended December 31 (thousands of Canadian dollars)	**2015**	2014
Foreign exchange loss	**58**	-
Loss on disposal of property, plant and equipment	**1,064**	1,068
Other asset disposal costs	**1,749**	1,652
Other (income) expense	**2,871**	2,720

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

20.1 Fair Value

The estimated fair values of financial instruments as at December 31, 2015 and December 31, 2014 are based on relevant market prices and information available at the time. Fair value estimates are based on valuation techniques which are significantly affected by the assumptions used including the amount and timing of future cash flows and discount rates reflecting various degrees of risk. As such, the fair value estimates below are not necessarily indicative of the amounts that Churchill Falls might receive or incur in actual market transactions.

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

Establishing Fair Value

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

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

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

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

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. For assets and liabilities that are recognized at fair value on a recurring basis, Churchill Falls determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no transfers between Level 1, 2 and 3 fair value measurement during the years ended December 31, 2015 and December 31, 2014.

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

	Level	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
(thousands of Canadian dollars)		**2015**		2014	
Financial assets					
Long-term related party receivable	**2**	**7**	**7**	7	7
Reserve fund	**2**	**47,015**	**47,015**	51,999	51,999
Financial liabilities					
Long-term related party payable*	**2**	**476**	**511**	1,120	1,137

*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, short-term investments, 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.

20.2 Risk Management

Churchill Falls is exposed to credit, liquidity and market risks through its operating, investing and financing activities.

Credit Risk

Expected future cash flows are exposed to credit risk through operating activities, primarily due to the potential for non-performance by customers, and through financing activities, based on the risk of non-performance by counterparties to financial instruments. The degree of exposure on cash and cash equivalents, accounts receivable, the reserve fund, long-term payables and receivables and energy sales depends on the financial capacity and stability of those customers and counterparties. The maximum exposure to credit risk on these financial instruments is represented by their carrying values on the balance sheet at the reporting date.

Credit exposure on energy sales is limited, as Churchill Falls' two main customers – Hydro and Hydro Québec – are investment grade utilities.

Credit risk on cash and cash equivalents is limited, as Churchill Falls' cash deposits are held by a Schedule 1 Canadian Chartered bank with a rating of A+ (Standard and Poor's).

Credit exposure on the reserve fund is mitigated by adhering to an investment policy which restricts the holdings to long-term debt instruments issued or guaranteed by the Government of Canada or any province of Canada. Investment in the long-term debt instruments of Canadian banks are also permitted, provided the bank is rated A or higher by Standard and Poor's. With the exception of Government of Canada, holdings of any one issuer are limited to 10% of the total principal amount of the portfolio. The following credit risk table provides information on credit exposures according to issuer type and credit rating for the reserve fund:

	Issuer Credit Rating	Fair Value of Portfolio (%)	Issuer Credit Rating	Fair Value of Portfolio (%)
	2015		2014	
Provincial governments	**AA- to AAA**	**3.48%**	AA- to AAA	-
Provincial governments	**AA- to AAA**	**10.17%**	AA- to AAA	9.14%
Provincially owned utilities	**A- to A+**	**-**	A- to A+	29.28%
Provincially owned utilities	**AA- to AAA**	**0.00%**	AA- to AAA	2.10%
Schedule 1 and 2 Canadian banks	**A- to A+**	**12.70%**	A- to A+	9.15%
Schedule 1 Canadian banks	**A- to A+**	**60.96%**	A- to A+	50.33%
		100.00%		100.00%

Liquidity Risk

Churchill Falls is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. Churchill Falls manages this risk by maintaining borrowing facilities, a minimum cash balance of $20.0 million (2014 - $16.0 million) and business interruption insurance. Short-term liquidity is provided through cash and cash equivalents on hand, funds from operations and a $10.0 million (2014 - $10.0 million) unsecured credit facility. Long-term liquidity risk is managed by maintenance of the reserve fund in accordance with the June 1999 shareholders' agreement and a dividend management policy that meets long-term liquidity requirements associated with Churchill Falls' capital expenditure program.

The following are the contractual maturities of Churchill Falls' financial liabilities, including principal and interest, as at December 31, 2015:

(thousands of Canadian dollars)	< 1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	27,841	-	-	-	27,841
Rental and royalty payable	7,752	-	-	-	7,752
	35,593	-	-	-	35,593

Market Risk
Churchill Falls is exposed to possible market price movements that could impact expected future cash flow and the carrying value of certain financial assets and liabilities.

Interest Rates
Changes in prevailing interest rates will impact the fair value of financial assets and liabilities classified as available for sale, which includes the reserve fund. Expected future cash flows from these assets and liabilities are also impacted in certain circumstances, such as when available for sale securities are sold prior to maturity. The following table illustrates Churchill Falls' exposure to a 0.5% change in interest rates:

	Other Comprehensive Income	
(thousands of Canadian dollars)	0.5% Decrease	0.5% Increase
Interest on reserve fund	396	363
Interest on short term investments	-	-

Foreign Currency and Commodity Exposure
Churchill Falls does not hold any financial instrument whose value would vary due to changes in a commodity price. Cash flow exposure to commodity price and foreign exchange risk arises primarily through investing activities, most notably US dollar denominated capital expenditures, and regular procurement activities. The exposure, however, is considered immaterial.

21. 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

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

		Hydro-Québec	Hydro	Other	Total
(thousands of Canadian dollars)			**2015**		
Power sales	**(a)(d)**	**72,915**	**43,610**	**-**	**116,525**
Guaranteed winter availability	**(a)**	**36,637**	**-**	**-**	**36,637**
Operating costs	**(b)(c)**	**-**	**3,158**	**9,409**	**12,567**
Net finance (income) expense	**(e)**	**60**	**-**	**-**	**60**
Trade and other receivables	**(f)**	**15,972**	**5,160**	**68**	**21,200**
Long-term related party receivable		**-**	**-**	**7**	**7**
Trade and other payables	**(c)(e)**	**1,896**	**-**	**894**	**2,790**
Rental and royalty payable	**(c)**	**-**	**-**	**7,752**	**7,752**
(thousands of Canadian dollars)			2014		
Power sales	(a)(d)	70,115	6,065	986	77,166
Guaranteed winter availability	(a)	32,141	-	-	32,141
Rental of rights and facilities to Twin Falls	(d)	-	-	735	735
Operating costs	(b)(c)	-	2,841	6,426	9,267
Net finance (income) expense	(e)	342	-	-	342
Trade and other receivables	(f)	15,500	468	3,268	19,236
Long-term related party receivable		-	-	7	7
Trade and other payables	(c)(e)	1,921	-	891	2,812
Rental and royalty payable	(c)	-	-	4,724	4,724
Long-term related party payable	(e)	1,120	-	-	1,120

(a) Churchill Falls has entered into long-term power contracts with its shareholders for the sale of substantially all of the power produced by the generating plant. During 2015, revenue from Hydro-Québec and Hydro was $109,552,000 (2014 - $102,256,000) and $43,610,000 (2014 - $6,065,000) respectively.

(b) For the year ended December 31, 2015, approximately $4,393,000 (2014 - $4,335,000) of operating costs were charged from Hydro and Nalcor for engineering, technical, management and administrative services.

(c) Under the terms of the Lease and amendments thereto, Churchill Falls is required to pay the Province an annual rental of 8% of the consolidated net profits before income taxes and an annual royalty of $0.50 per horsepower year generated, as defined in the Lease. At December 31, 2015, $7,752,000 (2014 - $4,724,000) was payable to the Province.

(d) As a result of a sub-lease between Churchill Falls and Twin Falls, certain rights were suspended by Churchill Falls effective June 30, 1974 with the result that Churchill Falls was diverting the flow of water from the Twin Falls plant and using the facilities of Twin Falls as required. In consideration for this suspension of rights, Churchill Falls was required to deliver to Twin Falls, during the unexpired term of the sub-lease, horsepower equivalent to the installed horsepower of the Twin Falls plant. Twin Falls was obliged to purchase this power for an amount equal to the average annual cost of operating the Twin Falls plant for the five year period ended March 31, 1974. In addition, Twin Falls was required to pay annually to Churchill Falls a rental amounting to $305,000 and $1.40 per installed horsepower. Twin Falls also paid to Churchill Falls an annual royalty of $0.50 per horsepower year generated, as defined, all calculated as though the power delivered by Churchill Falls to Twin Falls had been generated in the Twin Falls plant. This sub-lease expired December 31, 2014.

(e) Churchill Falls tracks the value of differences between energy delivered and the AEB over a four year period. The difference is then recovered from or refunded to Hydro-Québec over the subsequent four year period.

The long-term payable to Hydro-Québec as at December 31, 2015 is the accumulation of differences between energy delivered and the AEB during the four year period from September 1, 2008 to August 31, 2012 and the four year period September 1, 2012 to August 31, 2016. The current portion of $1,478,000 (2014 - $1,502,000) is included in trade and other payables. The long-term portion is $nil (2014 - $1,120,000) and relates to September 1, 2012 to August 31, 2016.

For the year ended December 31, 2015, net interest expense on the long-term related party payable/receivable was $60,000 (2014 - $342,000).

(f) On February 3, 2010, the Province established the Trust with Churchill Falls as the beneficiary. The purpose of the Trust is to fund the external costs and expenses incurred in relation to the motion filed by Churchill Falls seeking a modification to the pricing terms of the 1969 Power Contract. To date, $4,949,000 (2014 - $4,765,000) has been received and $17,000 (2014 - $178,000) has been accrued as receivable from the Trust.

(g) As at December 31, 2015, Churchill Falls capacity penalty payable was $419,000 (2014 - $419,000). The capacity penalty relates to the supply of power to Hydro-Québec. Churchill Falls did not incur a capacity penalty in 2015 (2014 - $nil).

21.1 Key Management Personnel

Compensation for key management personnel, which Churchill Falls defines as its executives who have the primary authority and responsibility in planning, directing and controlling the activities of the entity, includes compensation for senior executives. Salaries and employee benefits include base salaries, performance contract payments, vehicle allowances and contributions to employee benefit plans. Post-employment benefits include contributions to the Province's Public Service Pension Plan.

For the year ended December 31 (thousands of Canadian dollars)	**2015**	2014
Salaries and employee benefits	**239**	178
Post-employment benefits	**14**	7
	253	185

22. COMMITMENTS AND CONTINGENCIES

(a) Outstanding commitments for capital projects total approximately $18.2 million as at December 31, 2015 (2014 - $7.9 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 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 and is in effect to August 31, 2041.

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 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 financial statements of Twin Falls for the year ended December 31, 2015 do not include adjustments to the carrying values and classification of assets and liabilities as they are undeterminable at this time. These adjustments could be material.

23. CAPITAL MANAGEMENT

Churchill Falls' objective when managing capital is to maintain its ability to continue as a going concern. Churchill Falls' requirements for capital in the future are expected to increase, coincident with the aging of the plant and related infrastructure and the execution of the long-term asset management plan. The focus of the capital management policy is to provide flexibility to ensure cash continues to be available to satisfy capital requirements. Managing the level of dividend payments is a key aspect of ensuring the availability of funding to maintain the plant and infrastructure.

At present, the capital position of Churchill Falls is comprised entirely of equity capital (issued capital, shareholder contributions, reserves and retained earnings). The capital structure is adjusted through the amount of dividends paid to shareholders.

Churchill Falls maintains a $10.0 million Canadian or US equivalent unsecured operating credit facility with its banker. Advances may take the form of a Prime Rate advance or the issuance of a Bankers' Acceptance (BA) with interest calculated at the Prime Rate or prevailing Government BA Fee. The facility provides coverage for overdrafts on Churchill Falls' bank accounts, with interest calculated at the Prime Rate.

Churchill Falls has issued three irrevocable letters of credit totalling $2.0 million to ensure satisfactory management of its waste management system and compliance with a certificate of approval for the transportation of special and hazardous wastes, granted by the Provincial Department of Environment and Conservation.

24. SUPPLEMENTARY CASH FLOW INFORMATION

(thousands of Canadian dollars)	**2015**	2014
Trade and other receivables	**(2,475)**	(1,763)
Inventories	**(1,067)**	(631)
Prepayments	**(49)**	(127)
Trade and other payables	**2,629**	829
Rental and royalty payable	**3,028**	(870)
Change in non-cash working capital balances	**2,066**	(2,562)
Interest received	**2,179**	4,494
Interest paid	**181**	287

25. 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:

(thousands of Canadian dollars)	Previously reported	Intangible asset	**Reclassified balance at December 31, 2014**
Property, plant and equipment	583,540	(570)	**582,970**
Intangible assets	-	570	**570**