CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED
FINANCIAL STATEMENTS
December 31, 2016

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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, 2016 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, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 28 to the financial statements, which explains that certain comparative information for the year ended December 31, 2015 has been restated.

Deloitte LLP

Chartered Professional Accountants
March 1, 2017

CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED
STATEMENT OF FINANCIAL POSITION

As at December 31 (thousands of Canadian dollars)	Notes	**2016**	2015
			(Note 27)
ASSETS			(Restated - Note 28)
Current assets			
Cash and cash equivalents	5	**35,662**	54,924
Trade and other receivables	6	**20,393**	23,789
Inventories	7	**19,232**	18,753
Current portion of reserve fund	12	**7,466**	16,437
Prepayments		**2,063**	1,932
Total current assets		**84,816**	115,835
Non-current assets			
Property, plant and equipment	8	**654,198**	615,457
Intangible assets	9	**681**	668
Investment in joint venture	10	**1,868**	1,853
Long-term investments	11	**51,600**	-
Reserve fund	12	**15,132**	30,578
Total assets		**808,295**	764,391
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	13	**26,069**	27,841
Rental and royalty payable	28	**7,540**	7,921
Current portion of deferred contributions	14	**748**	783
Total current liabilities		**34,357**	36,545
Non-current liabilities			
Deferred contributions	14	**11,496**	12,351
Decommissioning liabilities	15	**1,970**	1,296
Employee future benefits	16,28	**27,548**	26,964
Total liabilities		**75,371**	77,156
Shareholders' equity			
Share capital	18	**82,900**	82,900
Contributed capital	18	**5,550**	4,966
Reserves	28	**(4,274)**	(4,934)
Retained earnings	28	**648,748**	604,303
Total equity		**732,924**	687,235
Total liabilities and equity		**808,295**	764,391

Commitments and contingencies (Note 24)

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	**2016**	2015
			(Restated - Note 28)
Power sales		**110,087**	116,525
Guaranteed winter availability		**36,447**	36,637
Other revenue	14	**777**	783
Revenue		**147,311**	153,945
Operating costs	19,28	**67,547**	68,685
Depreciation and amortization	8,9	**23,581**	21,239
Net finance (income) expense	20	**(1,455)**	(1,640)
Other (income) expense	21	**550**	2,871
Share of (income) loss of joint venture	10	**(16)**	389
Profit for the year		**57,104**	62,401
Other comprehensive loss for the year			
Net fair value loss on available-for-sale financial instruments	17	**(409)**	(10)
Amounts reclassified to profit or loss	17	**(216)**	(92)
Amounts not reclassified to profit or loss			
Actuarial gain on employee benefits liability	16,17,28	**1,285**	831
Other comprehensive income for the year		**660**	729
Total comprehensive income for the year		**57,764**	63,130

See accompanying notes

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

(thousands of Canadian dollars)	Notes	Share Capital	Contributed Capital	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
Balance at January 1, 2016		**82,900**	**4,966**	**851**	**(5,785)**	**604,303**	**687,235**
Profit for the year		**-**	**-**	**-**	**-**	**57,104**	**57,104**
Other comprehensive income							
Net fair value loss on available-for-sale financial instruments	**17**	**-**	**-**	**(409)**	**-**	**-**	**(409)**
Amounts reclassified to profit or loss	**17**	**-**	**-**	**(216)**	**-**	**-**	**(216)**
Actuarial gain on employee benefits liability	**16,17**	**-**	**-**	**-**	**1,285**	**-**	**1,285**
Total comprehensive (loss) income for the year		**-**	**-**	**(625)**	**1,285**	**57,104**	**57,764**
Contributed capital	**18**	**-**	**584**	**-**	**-**	**-**	**584**
Preferred dividends	**18**	**-**	**-**	**-**	**-**	**(12,659)**	**(12,659)**
Balance at December 31, 2016		**82,900**	**5,550**	**226**	**(4,500)**	**648,748**	**732,924**
Balance at January 1, 2015 (Restated – Note 28)		82,900	4,844	953	(6,616)	555,619	637,700
Profit for the year		-	-	-	-	62,401	62,401
Other comprehensive income							
Net fair value loss on available-for-sale financial instruments	17	-	-	(10)	-	-	(10)
Amounts reclassified to profit or loss	17	-	-	(92)	-	-	(92)
Actuarial gain on employee benefits liability	16,17	-	-	-	831	-	831
Total comprehensive (loss) income for the year		-	-	(102)	831	62,401	63,130
Contributed capital	18	-	122	-	-	-	122
Preferred dividends	18	-	-	-	-	(13,717)	(13,717)
Balance at December 31, 2015		82,900	4,966	851	(5,785)	604,303	687,235

See accompanying notes

CHURCHILL FALLS (LABRADOR) CORPORATION
STATEMENT OF CASH FLOWS

For the year ended December 31 (thousands of Canadian dollars)	Notes	**2016**	2015
Cash provided from (used in)			(Restated - Note 28)
Operating activities			
Profit for the year	28	**57,104**	62,401
Adjusted for items not involving a cash flow:			
Depreciation and amortization	8,9	**23,581**	21,239
Amortization of deferred contributions	14	**(777)**	(783)
Employee benefits	16,28	**1,869**	1,509
Loss on disposal of property, plant and equipment	21	**683**	1,064
Accretion of decommissioning liability	15	**45**	48
Net discount on reserve fund	12	**(216)**	(91)
Share of (profit) loss of joint venture	10	**(16)**	389
Decommissioning liabilities settled	15	**(467)**	-
		81,806	85,776
Changes in non-cash working capital balances	26,28	**633**	2,109
Net cash provided from operating activities		**82,439**	87,885
Investing activities			
Additions to property, plant and equipment	8	**(62,125)**	(54,738)
Additions to intangible assets	9	**(161)**	(217)
Decrease in short-term investments		**-**	5,007
Increase in long-term investments	11	**(51,600)**	-
Withdrawal from reserve fund	12	**24,008**	4,973
Proceeds on disposal of property, plant and equipment		**252**	118
Net cash used in investing activities		**(89,626)**	(44,857)
Financing activities			
Decrease in long-term related party payable		**-**	(1,120)
Increase in contributed capital	18	**584**	122
Preferred dividends	18	**(12,659)**	(13,717)
Net cash used in financing activities		**(12,075)**	(14,715)
Net (decrease) increase in cash and cash equivalents		**(19,262)**	28,313
Cash and cash equivalents, beginning of year		**54,924**	26,611
Cash and cash equivalents, end of year		**35,662**	54,924
Interest received		**2,744**	2,179
Interest paid		**69**	181

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. Effective June 18, 1999, the two shareholders of Churchill Falls, Hydro and Hydro-Québec, entered into a Shareholders' Agreement which provided, among other matters, that certain of the strategic operating, financing and investing policies of Churchill Falls be subject to joint approval by representatives of Hydro and Hydro-Québec. The head and corporate office for Churchill Falls is located at 500 Columbus Drive, St. John’s, Newfoundland and Labrador, A1B 3T5.

2. SIGNIFICANT ACCOUNTING POLICIES

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, 2016, 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 financial assets and financial liabilities 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 27, 2017.

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. 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 rates, 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	40 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	7 to 10 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 of disposal 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 completed on an annual basis, 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 had a 40-year term that expired August 31, 2016, and was followed by a Renewed Power Contract with Hydro-Québec for an additional 25 years beginning September 1, 2016. The rate was predetermined in the Power Contract and was 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, was 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 or expiration of the Power Contact in which case it is recovered or refunded within 3 months. These receivables or payables are subject to interest at 7% per annum (2015 - 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 method.

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.

Financial Instrument	Category
Cash and cash equivalents	Loans and receivables
Trade and other receivables	Loans and receivables
Long-term investments	AFS financial assets
Reserve fund (current and long-term)	AFS financial assets
Trade and other payables	Other financial liabilities
Rental and royalty 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 contributions 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) Intangible Assets
Amounts recorded for amortization are based on the useful lives of Churchill Falls' assets. 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 amortization recorded.

(iii) 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.

(iv) 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.

(v) 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 in relation to the Renewed Power Contract. Management continues to work to negotiate terms of a new agreement.

3.2 Use of Judgment

(i) Asset Impairment and Reversals

Churchill Falls applies judgment in evaluating impairment and impairment reversal indicators based on various internal and external factors.

The recoverable amount of a CGU or asset is determined based on the higher of fair value less costs of disposal and its value in use. Management uses judgment in selecting discount rates and considering the occurrence of future events when determining the recoverable amount. Changes in these factors will affect the recoverable amount of CGUs and assets, which may result in a material adjustment to their carrying value.

(ii) 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.

(iii) Determination of CGUs

Churchill Falls' accounting policy relating to impairment of non-financial assets is described in Note 2.8. In applying this policy, Churchill Falls groups assets into the smallest identifiable groups for which cash flows are largely independent of the cash flows from other assets or groups of assets. Judgment is used in determining the level at which cash flows are largely independent of other assets or groups of assets.

(iv) Discount Rates

Certain of Churchill Falls' financial liabilities are discounted using discount rates that are subject to Management's judgment.

(v) Consolidation of Joint Arrangements

Management exercises judgment when applying the criteria outlined in IFRS 11 to determine whether joint arrangements constitute joint ventures or joint operations. Management has determined that its interest in Twin Falls is considered a joint venture.

4. FUTURE CHANGES IN ACCOUNTING POLICIES

Amendments to IFRS 11 – Accounting for Acquisition of Interests in Joint Operations, IAS 1 – Disclosure Initiatives and IAS 16 and 38 – Clarification of Acceptable Methods of Depreciation and Amortization that became effective for annual periods beginning on or after January 1, 2016 did not have a material impact on Churchill Falls' annual audited financial statements.

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

Amendments to IAS 7 - Disclosure Initiative[1]
IFRS 9 - Financial Instruments[2]
IFRS 15 - Revenue from Contracts with Customers[2]
IFRS 16 - Leases[3]
Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures[4]

[1]Effective for annual periods beginning on or after January 1, 2017, 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]Effective for annual periods beginning on or after a date yet to be determined.

4.1 Amendments to IAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific format to disclose financing activities; however, an entity may fulfil the disclosure objective by providing a reconciliation between the opening and closing balances in the Statement of Financial Position for liabilities arising from financing activities.

The amendments apply prospectively. Entities are not required to present comparative information for earlier periods.

Management does not anticipate that the application of these amendments to IAS 7 will have a material impact on Churchill Falls' annual audited financial statement disclosures.

4.2 IFRS 9 Financial Instruments

In July 2014, the IASB finalized the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which contains the requirements for a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting. IFRS 9 (as revised in 2014) will supersede IAS 39 Financial Instruments: Recognition and Measurement upon its effective date.

Phase 1: Classification and measurement of financial assets and financial liabilities

With respect to the classification and measurement, the number of categories of financial assets under IFRS 9 has been reduced; all recognized financial assets that are currently within the scope of IAS 39 will be subsequently measured at either amortized cost or fair value under IFRS 9.

IFRS 9 also contains requirements for the classification and measurement of financial liabilities and derecognition requirements. One major change from IAS 39 relates to the presentation of changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of that liability. Under IFRS 9, such changes are presented in other comprehensive income, unless the presentation of the effect of the change in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

Phase 2: Impairment of financial assets
The impairment model under IFRS 9 reflects expected credit losses, as opposed to incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

Phase 3: Hedge accounting
The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions 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 no longer required. Far more disclosure requirements about an entity's risk management activities have been introduced.

Transitional provisions
IFRS 9 (as revised in 2014) is effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. Management has elected to adopt the standard as of the effective date, and although the classifications of existing financial instruments and related disclosures will change, Management does not anticipate material adjustments to Churchill Falls' annual audited financial statements upon transition.

4.3 IFRS 15 Revenue from Contracts with Customers
IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It will supersede the following revenue standards and interpretations upon its effective date:

- IAS 18 Revenue;
- IAS 11 Construction Contracts;
- IFRIC 13 Customer Loyalty Programs;
- IFRIC 15 Agreements for the Construction of Real Estate;
- IFRIC 18 Transfers of Assets from Customers; and
- SIC 31 Revenue-Barter Transactions Involving Advertising Services.

As suggested by the title of the new revenue standard, IFRS 15 will only cover revenue arising from contracts with customers. Under IFRS 15, a customer of an entity is a party that has contracted with the entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. Unlike the scope of IAS 18, the recognition and measurement of interest income and dividend income from debt and equity investments are no longer within the scope of IFRS 15. Instead, they are within the scope of IAS 39 (or IFRS 9 if it is early adopted).

As mentioned above, the new standard has a single model to deal with revenue from contracts with customers. Its core principle 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.

Extensive disclosures are also required by the new standard.

Management does not anticipate that the application of IFRS 15 in the future will have a material impact on the amounts reported and disclosures made in Churchill Falls' annual audited financial statements.

4.4 IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It will supersede the following lease standard and interpretations upon its effective date:

- IAS 17 Leases;
- IFRIC 4 Determining Whether an Arrangement contains a Lease;
- SIC-15 Operating Leases – Incentives; and
- SIC-27 Evaluation the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer.

The standard introduces significant changes to lessee accounting: it removes the distinction between operating and finance leases under IAS 17 and requires a lessee to recognize a right-of-use asset and a lease liability at lease commencement for all leases, except for short-term leases and leases of low value assets.

In contrast to lessee accounting, the IFRS 16 lessor accounting requirements remain largely unchanged from IAS 17, which continue to require a lessor to classify a lease as either an operating lease or a finance lease.

A lessee can apply IFRS 16 either by a full retrospective approach or a modified retrospective approach. If the latter approach is selected, an entity is not required to restate the comparative information and the cumulative effect of initially applying IFRS 16 must be presented as an adjustment to opening retained earnings. 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.

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

The amendments deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture.

In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Earlier application of these amendments is still permitted.

5. CASH AND CASH EQUIVALENTS

As at December 31 (thousands of Canadian dollars)	**2016**	2015
Cash	**15,552**	54,924
Cash equivalents	**20,110**	-
	35,662	54,924

The effective interest rate on cash equivalents at December 31, 2016 was 0.97% per annum.

6. TRADE AND OTHER RECEIVABLES

As at December 31 (thousands of Canadian dollars)	**2016**	2015
Due from related parties	**18,395**	21,200
Other receivables	**1,998**	2,589
	20,393	23,789

As at December 31 (thousands of Canadian dollars)	**2016**	2015
0-60 days	**20,288**	22,801
60+ days	**105**	988
	20,393	23,789

7. INVENTORIES

As at December 31 (thousands of Canadian dollars)	**2016**	2015
Materials and other	**16,427**	15,938
Construction aggregates	**2,701**	2,701
Fuel	**104**	114
	19,232	18,753

The cost of inventories recognized as an expense during the year is $3.0 million (2015 - $2.8 million) and is included in operating costs in the Statement of Profit and Comprehensive Income.

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, 2015	760,280	235,093	177,457	18,449	1,191,279
Additions	(34)	-	-	54,772	54,738
Decommissioning liabilities and revisions	-	51	-	-	51
Disposals	(2,762)	(1,167)	(2,738)	-	(6,667)
Transfers	19,255	15,830	15,318	(50,403)	-
Balance at December 31, 2015	776,739	249,807	190,037	22,818	1,239,401
Additions	**(78)**	**-**	**33**	**62,170**	**62,125**
Decommissioning liabilities and revisions	**-**	**1,096**	**-**	**-**	**1,096**
Disposals	**(2,239)**	**(1,044)**	**(2,582)**	**-**	**(5,865)**
Transfers	**26,383**	**22,028**	**20,068**	**(68,479)**	**-**
Balance at December 31, 2016	**800,805**	**271,887**	**207,556**	**16,509**	**1,296,757**
Depreciation					
Balance at January 1, 2015	404,666	127,629	76,014	-	608,309
Depreciation	9,876	3,635	7,609	-	21,120
Disposals	(2,124)	(920)	(2,441)	-	(5,485)
Balance at December 31, 2015	412,418	130,344	81,182	-	623,944
Depreciation	**10,745**	**4,271**	**8,417**	**-**	**23,433**
Disposals	**(1,652)**	**(850)**	**(2,316)**	**-**	**(4,818)**
Balance at December 31, 2016	**421,511**	**133,765**	**87,283**	**-**	**642,559**
Carrying value					
Balance at January 1, 2015	355,614	107,464	101,443	18,449	582,970
Balance at December 31, 2015	364,321	119,463	108,855	22,818	615,457
Balance at December 31, 2016	**379,294**	**138,122**	**120,273**	**16,509**	**654,198**

9. INTANGIBLE ASSETS

(thousands of Canadian dollars)	Software
Cost	
Balance at January 1, 2015	1,021
Additions	217
Disposals	-
Balance at December 31, 2015	1,238
Additions	**161**
Disposals	**-**
Balance at December 31, 2016	**1,399**
Amortization	
Balance at January 1, 2015	451
Amortization	119
Disposals	-
Balance at December 31, 2015	570
Amortization	**148**
Disposals	**-**
Balance at December 31, 2016	**718**
Carrying value	
Balance at January 1, 2015	570
Balance at December 31, 2015	668
Balance at December 31, 2016	**681**

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 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)	**2016**	2015
Current assets	**5,624**	5,898
Non-current assets	**58**	346
Current liabilities	**62**	630
Non-current liabilities	**12**	53
Net assets	**5,608**	5,561
Churchill Falls' share of net assets	**1,868**	1,853
Total profit (loss)	**47**	(1,167)
Churchill Falls' share of profit (loss)	**16**	(389)

The above amounts of assets and liabilities include the following:

Cash and cash equivalents	**5,572**	5,558

11. LONG-TERM INVESTMENTS

As at December 31 (thousands of Canadian dollars)	Year of Maturity	**2016**	2015
\$28.0 million Redeemable GIC, interest at 1.40%	2019	**28,000**	-
\$23.6 million Redeemable GIC, interest at 1.46%	2019	**23,600**	-
Long-term investments, end of year		**51,600**	-

12. RESERVE FUND

In 2007 Churchill Falls commenced the creation of a \$75.0 million segregated reserve fund pursuant to the terms of the Shareholders' Agreement 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 December 2016, \$23.4 million (2015 - \$5.0 million) was withdrawn to fund a portion of capital expenditures. As per the terms of the Shareholders' Agreement, these funds will be replaced over a five year period when the reserve fund is fully depleted.

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)	**2016**	2015 (Note 27)
Reserve fund, beginning of year	**47,015**	51,999
Principal withdrawals	**(23,370)**	(4,972)
Earnings withdrawn	**(638)**	(1)
Net discount	**216**	91
Mark-to-market adjustment	**(625)**	(102)
Reserve fund, end of year	**22,598**	47,015
Less: current portion	**(7,466)**	(16,437)
	15,132	30,578

13. TRADE AND OTHER PAYABLES

As at December 31 (thousands of Canadian dollars)	**2016**	2015
Trade payables and accruals	**14,111**	12,729
Payables due to related parties	**3,089**	2,790
Other payables	**8,869**	12,322
	26,069	27,841

14. DEFERRED CONTRIBUTIONS

Churchill Falls has received contributions from Transport Canada related to the airport. 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)	**2016**	2015
Deferred contributions, beginning of year	**13,134**	13,917
Disposals	**(113)**	-
Amortization	**(777)**	(783)
Deferred contributions, end of year	**12,244**	13,134
Less: current portion	**(748)**	(783)
	11,496	12,351

15. DECOMMISSIONING LIABILITIES

Churchill Falls has recognized liabilities associated with the disposal of Polychlorinated Biphenyls (PCB).

The reconciliation of the beginning and ending carrying amounts of decommissioning liabilities as at December 31, 2016 and December 31, 2015 are as follows:

As at December 31 (thousands of Canadian dollars)	**2016**	2015
Decommissioning liabilities, beginning of year	**1,296**	1,197
Accretion	**45**	48
Liabilities settled	**(467)**	-
Revisions	**1,096**	51
Decommissioning liabilities, end of year	**1,970**	1,296

The total estimated undiscounted cash flows required to settle the PCB obligations at December 31, 2016 are $2.3 million (2015 - $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 3.7% (2015 - 3.8%).

16. EMPLOYEE FUTURE BENEFITS

16.1 Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions for the year ended December 31, 2016 of $2,509,000 (2015 - $2,400,000) are expensed as incurred.

16.2 Other Benefits

Churchill Falls provides group life insurance and healthcare benefits on a cost shared basis to retired employees, and in certain cases, their surviving spouses, in addition to a severance payment upon retirement. In 2016, cash payments to beneficiaries for its unfunded other employee future benefits were $611,000 (2015 - $831,000). An actuarial valuation was performed as at December 31, 2016.

As at December 31 (thousands of Canadian dollars)	**2016**	2015
Accrued benefit obligation		(Restated - Note 28)
Balance, beginning of year	**26,964**	26,286
Current service cost	**1,329**	1,203
Interest cost	**1,146**	1,137
Transfers	**5**	-
Benefits paid	**(611)**	(831)
Actuarial gain	**(1,285)**	(831)
Balance, end of year	**27,548**	26,964

For the year ended December 31 (thousands of Canadian dollars)	**2016**	2015
Component of benefit cost		(Restated - Note 28)
Current service cost	**1,329**	1,203
Interest cost	**1,146**	1,137
Total benefit expense for the year	**2,475**	2,340

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

	2016	2015
Discount rate - benefit cost	**4.10%**	4.20%
Discount rate - accrued benefit obligation	**4.10%**	4.20%
Rate of compensation increase	**3.50%**	3.50%

Assumed healthcare trend rates:

	2016	2015
Initial healthcare expense trend rate	**5.85%**	6.00%
Cost trend decline to	**4.50%**	4.50%
Year that rate reaches the rate it is assumed to remain at	**2025**	2025

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

Increase (thousands of Canadian dollars)	**2016**	2015
Current service and interest cost	**477**	682
Accrued benefit obligation	**4,617**	6,165

Decrease (thousands of Canadian dollars)	**2016**	2015
Current service and interest cost	**(346)**	(484)
Accrued benefit obligation	**(3,510)**	(4,602)

17. ACCUMULATED OTHER COMPREHENSIVE INCOME

The components of, and changes in, accumulated other comprehensive income (loss) are as follows:

Items that will not be reclassified to profit or loss:

(thousands of Canadian dollars)	**2016**	2015
Employee benefits liability		(Restated - Note 28)
Balance at January 1	**(5,785)**	(6,616)
Net actuarial gain on defined benefit plan	**1,285**	831
Balance, end of year	**(4,500)**	(5,785)

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

(thousands of Canadian dollars)	**2016**	2015
Available-for-sale financial instruments		
Balance at January 1	**851**	953
Net fair value loss on available-for-sale during the year	**(409)**	(10)
Amounts reclassified to profit or loss	**(216)**	(92)
Balance, end of year	**226**	851

18. SHAREHOLDERS' EQUITY

18.1 Share Capital

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

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.

18.2 Contributed Capital

As at December 31 (thousands of Canadian dollars)	**2016**	2015
Labrador Transmission Corporation (Labrador Transco)	**198**	-
Churchill Falls (Labrador) Corporation Trust (the Trust)	**5,352**	4,966
Total contributed capital	**5,550**	4,966

During 2016, Labrador Transco contributed $198,000 (2015 - $nil) related to property, plant and equipment and the Trust contributed $386,000 (2015 - $122,000).

18.3 Dividends Paid and Proposed

For the year ended December 31 (thousands of Canadian dollars)	**2016**	2015
Declared during the year		
Final preferred dividend for prior year	**1,243**	(26)
Interim preferred dividend for current year	**11,416**	13,743
	12,659	13,717
Proposed for approval, not recognized as payable (receivable) at December 31		
Final dividend underpayment for current year	**515**	1,243

During 2016, Churchill Falls did not pay any common dividends (2015 - $nil).

19. OPERATING COSTS

For the year ended December 31 (thousands of Canadian dollars)	**2016**	2015
		(Restated - Note 28)
Salaries and benefits expense	**41,377**	38,578
Maintenance and materials	**10,126**	10,208
Rental and royalty expense	**7,374**	7,797
Professional services	**4,867**	6,350
Other operating costs	**3,803**	5,752
	67,547	68,685

20. NET FINANCE (INCOME) EXPENSE

For the year ended December 31 (thousands of Canadian dollars)	**2016**	2015
Finance income		
Interest on reserve fund	**1,123**	1,365
Interest on short-term investments	**137**	281
Other interest income	**514**	155
	1,774	1,801
Finance expense		
Related party payable / receivable	**231**	60
Accretion of decommissioning liability	**45**	48
Other interest expense	**43**	53
	319	161
Net finance (income) expense	**(1,455)**	(1,640)

21. OTHER (INCOME) EXPENSE

For the year ended December 31 (thousands of Canadian dollars)	**2016**	2015
Realized foreign exchange (gain) loss	**(209)**	227
Unrealized foreign exchange loss (gain)	**35**	(169)
Loss on disposal of property, plant and equipment	**683**	1,064
Other asset disposal costs	**41**	1,749
Other (income) expense	**550**	2,871

22. FINANCIAL INSTRUMENTS

Fair Value

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

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

Establishing Fair Value

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

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

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

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

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. For assets and liabilities that are recognized at fair value on a recurring basis, Churchill Falls determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting year. There were no transfers between Level 1, 2 and 3 fair value measurement during the years ended December 31, 2016 and December 31, 2015.

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

	Level	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
(thousands of Canadian dollars)		**December 31, 2016**		December 31, 2015	
Financial assets					
Reserve fund	**2**	**22,598**	**22,598**	47,015	47,015

The fair values of cash and cash equivalents, trade and other receivables, long-term investments, trade and other payables, and rental and royalty payable approximate their carrying values due to their short-term maturity.

The fair values of Level 2 financial instruments are determined using quoted prices in active markets, which in some cases are adjusted for factors specific to the asset or liability. Level 2 fair values of other risk management assets and liabilities and long-term debt are determined using observable inputs other than unadjusted quoted prices, such as interest rate yield curves and currency rates.

22.2 Risk Management

Churchill Falls is exposed to certain credit, liquidity and market price risks through its operating, financing and investing activities. Financial risk is managed in accordance with a Board approved policy, which outlines the objectives and strategies for the management of financial risk, including the use of derivative contracts. Permitted financial risk management strategies are aimed at minimizing the volatility of Churchill Falls' expected future cash flows.

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, long-term investments, 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 Statement of Financial Position 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 (%)
	2016		2015	
Provincial governments	**AA- to AAA**	**7.32%**	AA- to AAA	3.48%
Provincial governments	**A- to A+**	**30.63%**	A- to A+	12.69%
Provincially owned utilities	**A- to A+**	**0.00%**	A- to A+	12.70%
Schedule 1 Canadian banks	**AA- to AAA**	**9.07%**	AA- to AAA	10.17%
Schedule 1 and 2 Canadian banks	**A- to A+**	**52.98%**	A- to A+	60.96%
		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 $22.0 million (2015 - $20.0 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 (2015 - $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, 2016.

(thousands of Canadian dollars)	< 1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	26,069	-	-	-	26,069
Rental and royalty payable	7,540	-	-	-	7,540
	33,609	-	-	-	33,609

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 long-term investments and 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 50 basis point (bps) change in interest rates:

	Other Comprehensive Income	
(thousands of Canadian dollars)	0.5% Decrease	0.5% Increase
Interest on reserve fund	167	165

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.

23. RELATED PARTY TRANSACTIONS

Churchill Falls enters into various transactions with its shareholders and other affiliates. These transactions occur within the normal course of operations and are measured at the exchange amount, which is the amount of consideration agreed to by the related parties. Related parties with which Churchill Falls transacts are as follows:

Related Party	Relationship
Hydro	65.8% shareholder of Churchill Falls
Hydro-Québec	34.2% shareholder of Churchill Falls
Nalcor	100% shareholder of Hydro
The Province	100% shareholder of Nalcor
Twin Falls	Jointly controlled by Churchill Falls
Labrador Transco	100% owned subsidiary of Nalcor
The Trust	Churchill Falls (Labrador) Corporation Trust was created by the Province with Churchill Falls as the beneficiary

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Outstanding balances due to or from related parties are non-interest bearing with no set terms of repayment, unless otherwise stated.

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

As at December 31 (thousands of Canadian dollars)	Related party	**2016**	2015
Trade and other receivables:			(Restated - Note 28)
Power sales	Hydro-Québec	**13,267**	15,260
Power sales and other	Hydro	**4,384**	5,160
Engineering, technical, management, and administrative services	Other	**12**	17
Property, plant and equipment	Labrador Transco	**198**	-
CF Trust receivable	The Trust	**13**	16
Engineering, technical, management, and administrative services	Hydro-Québec	**521**	712
Trade and other payables:			
Other	Hydro-Québec	**2,244**	1,896
Engineering, technical, management, and administrative services	Nalcor	**845**	894
Rental and royalty payable	The Province	**7,540**	7,921

For the year ended December 31 (thousands of Canadian dollars)		**2016**	2015
Power sales:			(Restated - Note 28)
Long-term power contract	Hydro-Québec	**65,923**	72,915
Long-term power contract	Hydro	**44,164**	43,610
Guaranteed winter availability:			
Guaranteed winter availability contract	Hydro-Québec	**36,447**	36,637
Operating (recovery) costs:			
Engineering, technical, management, and administrative services	Hydro-Québec	**(814)**	(853)
Engineering, technical, management, and administrative services	Hydro	**1,841**	2,763
Rental and royalty expense	The Province	**7,374**	7,797
Engineering, technical, management, and administrative services	Other	**2,634**	2,050
Net finance (income) expense:			
Related party payable/receivable	Hydro-Québec	**231**	60

(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 2016, revenue from Hydro-Québec and Hydro was $102,370,000 (2015 - $109,552,000) and $44,164,000 (2015 - $43,610,000) respectively.

(b) For the year ended December 31, 2016, approximately $4,475,000 (2015 - $4,813,000) 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, 2016, $7,540,000 (2015 - $7,921,000) was payable to the Province.

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

The payable to Hydro-Québec as at December 31, 2016 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 $nil (2015 - $1,478,000) is included in trade and other payables.

For the year ended December 31, 2016, net finance (income) expense on the related party payable/receivable was $231,000 (2015 - $60,000).

(e) 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, $5,339,000 (2015 - $4,949,000) has been received and $13,000 (2015 - $17,000) has been accrued as receivable from the Trust.

(f) As at December 31, 2016, Churchill Falls capacity penalty payable was $419,000 (2015 - $419,000). The capacity penalty relates to the supply of power to Hydro-Québec. Churchill Falls did not incur a capacity penalty in 2016 (2015 - $nil).

(g) During 2016, Churchill Falls received contributions of $198,000 (2015 - $nil) related to property, plant and equipment from Labrador Transco.

23.1 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)	**2016**	2015
Salaries and employee benefits	**259**	239
Post-employment benefits	**14**	14
	273	253

24. COMMITMENTS AND CONTINGENCIES

(a) Outstanding commitments for capital projects total approximately $13.2 million as at December 31, 2016 (2015 - $18.2 million).

(b) Churchill Falls is subject to various legal proceedings and claims in the normal course of business. Although the outcome of such actions cannot be predicted with certainty, Management currently believes Churchill Falls' exposure to such claims and litigation, to the extent not covered by insurance policies or otherwise provided for, will not materially affect its financial position.

(c) The 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 Twin Falls and Churchill Falls dated November 15, 1961 giving Twin Falls the right to develop hydroelectric power on the Unknown River expired on December 31, 2014. A sub-lease was signed between Hydro, Churchill Falls and Twin Falls naming Hydro as the sub-lessee of the transmission lines and related assets from Churchill Falls to Labrador West, covering the period of January 1 to June 30, 2015. The term of this Sub-lease between Hydro and Churchill Falls has been extended to March 31, 2017.

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, 2016 do not include adjustments to the carrying values and classification of assets and liabilities as they are undeterminable at this time. These adjustments could be material.

25. 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. There were no amounts drawn on this facility as at December 31, 2016 (2015 - $nil).

Churchill Falls has issued three irrevocable letters of credit totalling $2.0 million (2015 - $2.0 million), $1.0 million of which does not impact the borrowing limit of the operating credit facility (2015 - $1.0 million). The letters of credit 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.

26. SUPPLEMENTARY CASH FLOW INFORMATION

For the year ended December 31 (thousands of Canadian dollars)	**2016**	2015
		(Restated - Note 28)
Trade and other receivables	**3,396**	(2,475)
Inventories	**(479)**	(1,067)
Prepayments	**(131)**	(49)
Trade and other payables	**(1,772)**	2,629
Rental and royalty payable	**(381)**	3,071
Change in non-cash working capital balances	**633**	2,109

27. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the basis of presentation adopted during the current reporting year. The changes have been summarized as follows:

(thousands of Canadian dollars)	Previously reported	Reserve fund	**Reclassified balance**
Current portion of reserve fund	-	16,437	**16,437**
Reserve fund	47,015	(16,437)	**30,578**

28. PRIOR PERIOD ADJUSTMENTS

The January 1, 2015 and December 31, 2015 figures have been restated as a result of a misstatement relating to the calculation of the other post-employment benefit ('OPEB') health and dental liabilities for retirees. The December 31, 2015 figures have been restated to reduce employee future benefits by $4,375,000 and reserves by $2,271,000 and increase opening retained earnings by $1,935,000 and rental and royalty payable by $169,000.

The following table summarizes the adjustments to the affected accounts from the previously issued 2015 audited financial statements to the current year comparative figures:

(thousands of Canadian dollars)	**Previously stated 2015**	**Adjustment 2015**	**Restated 2015**
Statement of Financial Position			
Rental and royalty payable	7,752	169	7,921
Employee future benefits	31,339	(4,375)	26,964
Reserves	(7,205)	2,271	(4,934)
Retained earnings	602,368	1,935	604,303
Statement of Profit and Comprehensive Income			
Operating costs	69,178	(493)	68,685
Actuarial gain on employee benefits liability	3,808	(2,977)	831
Statement of Changes in Equity			
Employee Benefit Reserve, Balance at January 1, 2015	(11,864)	5,248	(6,616)
Retained earnings, Balance at January 1, 2015	554,177	1,442	555,619
Profit for the year	61,908	493	62,401
Actuarial gain on employee benefits liability	3,808	(2,977)	831
Statement of Cash Flows			
Profit for the year	61,908	493	62,401
Changes in non-cash working capital balances	2,066	43	2,109
Employee benefits	2,045	(536)	1,509