CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED
FINANCIAL STATEMENTS
December 31, 2021

Deloitte LLP
5 Springdale Street
Suite 1000
St. John's, NL A1E 0E4
Canada

Tel: (709) 576-8480
Fax: (709) 576-8460
www.deloitte.ca

Independent Auditor's Report

To the Shareholders of Churchill Falls (Labrador) Corporation Limited

Opinion

We have audited the financial statements of Churchill Falls (Labrador) Corporation Limited (the "Company"), which comprise of financial position as at December 31, 2021, and the statements of profit and comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte LLP

Chartered Professional Accountants
March 21, 2022

CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED
STATEMENT OF FINANCIAL POSITION

As at December 31 (thousands of Canadian dollars)	Notes	**2021**	2020
ASSETS			
Current assets			
Cash		**99,813**	97,073
Restricted cash		**313**	274
Trade and other receivables	5	**26,487**	21,050
Inventories	6	**18,791**	18,220
Current portion of reserve fund	8	**9,696**	4,208
Prepayments		**3,117**	3,095
Total current assets		**158,217**	143,920
Non-current assets			
Property, plant and equipment	7	**841,843**	801,200
Intangible assets		**585**	661
Investment in joint venture		**1,170**	1,976
Reserve fund	8	**56,530**	54,279
Total assets		**1,058,345**	1,002,036
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	9	**38,833**	48,668
Rental and royalty payable	19	**9,154**	6,546
Current portion of deferred contributions	10	**701**	690
Total current liabilities		**48,688**	55,904
Non-current liabilities			
Deferred contributions	10	**7,822**	8,533
Decommissioning liabilities	11	**619**	1,000
Employee future benefits	12	**33,001**	36,899
Total liabilities		**90,130**	102,336
Shareholders' equity			
Share capital	13	**82,900**	82,900
Contributed capital		**8,195**	8,195
Reserves		**(1,005)**	(5,111)
Retained earnings		**878,125**	813,716
Total equity		**968,215**	899,700
Total liabilities and equity		**1,058,345**	1,002,036

Commitments and contingencies (Note 20) and Subsequent event (Note 23)

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	**2021**	2020
Energy sales		**111,534**	106,241
Guaranteed winter availability		**37,679**	36,990
Net finance income	14	**2,100**	1,821
Other revenue	15	**24,990**	691
Revenue		**176,303**	145,743
Operating costs	16	**58,930**	58,299
Depreciation and amortization		**30,723**	30,456
Other expense	17	**10,231**	8,312
Share of loss of joint venture		**806**	47
Expenses		**100,690**	97,114
Profit for the year		**75,613**	48,629
Other comprehensive (loss) income for the year			
Net fair value (loss) gain on reserve fund		**(1,636)**	1,676
Actuarial gain (loss) on employee benefits liability		**5,742**	(271)
Other comprehensive income for the year		**4,106**	1,405
Total comprehensive income for the year		**79,719**	50,034

See accompanying notes

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

(thousands of Canadian dollars)	Note	Share Capital	Contributed Capital	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
Balance at January 1, 2021		**82,900**	**8,195**	**2,238**	**(7,349)**	**813,716**	**899,700**
Profit for the year		**-**	**-**	**-**	**-**	**75,613**	**75,613**
Other comprehensive (loss) income		**-**	**-**	**(1,636)**	**5,742**	**-**	**4,106**
Total comprehensive (loss) income for the year		**-**	**-**	**(1,636)**	**5,742**	**75,613**	**79,719**
Preferred dividends	13	**-**	**-**	**-**	**-**	**(11,204)**	**(11,204)**
Balance at December 31, 2021		**82,900**	**8,195**	**602**	**(1,607)**	**878,125**	**968,215**
Balance at January 1, 2020		82,900	8,195	562	(7,078)	772,718	857,297
Profit for the year		-	-	-	-	48,629	48,629
Other comprehensive income (loss)		-	-	1,676	(271)	-	1,405
Total comprehensive income (loss) for the year		-	-	1,676	(271)	48,629	50,034
Preferred dividends	13	-	-	-	-	(7,631)	(7,631)
Balance at December 31, 2020		82,900	8,195	2,238	(7,349)	813,716	899,700

See accompanying note

CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED
STATEMENT OF CASH FLOWS

For the year ended December 31 (thousands of Canadian dollars)	Notes	**2021**	2020
Operating activities			
Profit for the year		**75,613**	48,629
Adjustments to reconcile profit to cash provided from operating activities:			
Depreciation and amortization		**30,723**	30,456
Amortization of deferred contributions	10	**(700)**	(691)
Employee benefits		**1,844**	1,944
Loss on disposal of property, plant and equipment		**991**	1,760
Share of loss of joint venture		**806**	47
Finance income	14	**(2,155)**	(1,897)
Finance expense	14	**55**	76
		107,177	80,324
Changes in non-cash working capital balances	22	**(13,809)**	11,629
Interest received		**2,253**	1,915
Interest paid		**(44)**	(44)
Net cash provided from operating activities		**95,577**	93,824
Investing activities			
Additions to property, plant and equipment	7	**(72,958)**	(63,414)
Additions to intangible assets		**(128)**	(222)
Increase in reserve fund	8	**(9,375)**	(18,750)
Additions to deferred contributions	10	**-**	38
Decommissioning liabilities settled	11	**(142)**	(37)
Proceeds on disposal of property, plant and equipment		**400**	-
Changes in non-cash working capital balances	22	**609**	4,343
Net cash used in investing activities		**(81,594)**	(78,042)
Financing activities			
Increase in restricted cash		**(39)**	(84)
Preferred dividends	13	**(11,204)**	(7,631)
Net cash used in financing activities		**(11,243)**	(7,715)
Net increase in cash		**2,740**	8,067
Cash, beginning of the year		**97,073**	89,006
Cash, end of the year		**99,813**	97,073

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. 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 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 (financial statements) have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

These financial statements have been prepared on a historical cost basis, except for financial assets and financial liabilities which have been measured at fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVTOCI) which have been measured at fair value. The financial statements are presented in Canadian Dollars (CAD) and all values rounded to the nearest thousand, except when otherwise noted. The financial statements were approved by Churchill Falls' Board of Directors on February 25, 2022.

2.2 Cash and cash equivalents and Short-term Investments

Cash and cash equivalents consist of amounts on deposit with Schedule 1 Canadian Chartered banks, 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.

2.3 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.

2.4 Property, Plant and Equipment

Items of property, plant and equipment are recognized 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 2.6. 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. 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. Depreciation commences when the assets are ready for their intended use. Residual values and useful lives are reviewed at the end of each year and adjusted prospectively, if appropriate. Depreciation is calculated on a straight line basis over the estimated useful lives of all assets.

The depreciation rates used are as follows:

Hydroelectric generation plant	7 to 100 years
Transmission and terminals	7 to 70 years
Service facilities and other	3 to 55 years

Hydroelectric generation plant includes the powerhouse, turbines and generators, governors and exciters, and auxiliary systems, as well as water conveying and control structures, including dams, dikes, tailraces, surge chambers, penstocks and intake structures.

Transmission lines and terminal stations Plant include support structures, foundations, conductors, and insulators associated with lines at voltages of 735, 230, and 69 kilovolt. Terminal station assets which are used to step up voltages of electricity for transmission and to step down voltages for distribution, provide switching and protection functions, and include auxiliary systems. Distribution system assets include poles, transformers, insulators, and conductors.

Service facilities and other Plant include roads, telecontrol, buildings, airport, aircraft, vehicles, furniture, tools and equipment, and the town site, including municipal water and sanitary sewer systems.

2.5 Intangible Assets

Assets that are expected to generate future economic benefit and are measurable, including computer software and technical service costs are capitalized as intangible assets in accordance with IAS 38 - *Intangible Assets*.

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

2.6 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.

2.7 Impairment of Non-Financial Assets

Property, plant and equipment and other non-financial assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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. The recoverable amount is the higher of fair value less costs of disposal and value in use. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from non-financial assets. 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.

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 and an impairment loss is recognized immediately in the Statement of Profit and Comprehensive Income.

2.8 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.

2.9 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 retirement allowance.

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.

2.10 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.

2.11 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. 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.

2.12 Revenue Recognition

Revenue from Contracts with Customers
Churchill Falls recognizes revenue from contracts with customers related to the sale of electricity. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Churchill Falls recognizes revenue when it transfers control of a product or service to a customer.

Revenue from the sale of energy is recognized when Churchill Falls satisfies its performance obligation by transferring energy to the customer. Sales to customers are in accordance with rates under the terms of the applicable contracts.

2.13 Leasing

Lessee Accounting
Churchill Falls assesses whether a contract is or contains a lease, at inception of a contract. Churchill Falls recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets. For these leases, Churchill Falls recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, Churchill Falls uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed (and in-substance) lease payments, less any lease incentives;
- variable lease payments that depend on an index or rate; and
- payments expected under residual value guarantees and payments relating to purchase options and renewal option periods that are reasonably certain to be exercised (or periods subject to termination options that are not reasonably certain to be exercised).

The lease liability is subsequently measured at amortized cost using the effective interest rate method. Lease liabilities are remeasured, with a corresponding adjustment to the related right-of-use assets, when there is a change in variable lease payments arising from a change in an index or rate, or when Churchill Falls changes its assessment of whether purchase, renewal or termination options will be exercised.

Churchill Falls did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and accumulated impairment losses.

Whenever Churchill Falls incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under *IAS 37 – Provisions, Contingent Liabilities and Contingent Assets*. The costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the shorter period of the lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that Churchill Falls expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of the lease.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in operating costs in the period in which the event or condition that triggers those payments occurs.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. Churchill Falls has elected to apply this practical expedient.

2.14 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 expense.

2.15 Income Taxes

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

2.16 Financial Instruments

Classification and Initial Measurement

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.

Financial assets are classified at amortized cost, fair value through other comprehensive income (FVTOCI), fair value through profit or loss (FVTPL) or as derivatives designated as hedging instruments in an effective hedge. Financial liabilities are classified as financial liabilities designated at FVTPL, amortized cost or as derivatives designated as hedging instruments in an effective hedge. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial Assets at Amortized Cost

Financial assets with contractual cash flows arising on specified dates, consisting solely of principal and interest, and that are held within a business model whose objective is to collect the contractual cash flows are subsequently measured at amortized cost using the effective interest rate method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Churchill Falls' financial assets at amortized cost include cash, restricted cash and trade and other receivables.

Financial Assets at FVTOCI

Financial assets measured at FVTOCI are those that have contractual cash flows arising on specific dates, consisting solely of principal and interest, and that are held within a business model whose objective is to collect the contractual cash flows and to sell the financial asset. Any change in the carrying amount of these assets other than foreign exchange gains and losses, impairment gains and losses and interest income are recognized in other comprehensive income accumulated in the fair value reserve. When these assets are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

Churchill Falls' financial assets measured at FVTOCI include reserve fund investments.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI are measured at FVTPL. Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss.

Financial Liabilities at Amortized Cost
Churchill Falls subsequently measures all financial liabilities at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the liability is derecognized.

Churchill Falls' financial liabilities at amortized cost include trade and other payables and rental and royalty payable.

Derecognition of Financial Instruments
Churchill Falls derecognizes a financial asset 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 party.

Churchill Falls derecognizes financial liabilities when, and only when, its obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Impairment of Financial Assets
Churchill Falls recognizes a loss allowance for expected credit losses (ECL) on investments in debt instruments that are measured at amortized cost or at FVTOCI. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

Churchill Falls always recognizes lifetime ECL for trade and other receivables. The ECL on these financial assets are estimated based on Churchill Falls' historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. Churchill Falls also records 12-month ECL for those financial assets which have low credit risk and where the low credit risk exemption has been applied. The classes of financial assets that have been identified to have low credit risk are cash and cash equivalents, restricted cash and the reserve fund.

For all other financial instruments, Churchill Falls recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, Churchill Falls measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

2.17 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 Statement 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 AND ESTIMATES

The preparation of the 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.

In 2020, the outbreak of the Coronavirus disease (COVID-19) has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. For the year ended December 31, 2021, COVID-19 did not have a significant financial impact on Churchill Falls' results of operations, financial position or cash flow. There continues to be uncertainty around the duration and magnitude of the pandemic and therefore the extent of any future effect on the Company is unknown at this time. Management will continue to assess the impact of COVID-19 on Churchill Falls' operations and financial results.

3.1 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 2.4. 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 2.7. 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 – Joint Arrangements 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.

3.2 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. 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.

4. CURRENT AND FUTURE CHANGES IN ACCOUNTING POLICIES

The following is a list of standards/interpretations that have been issued and are effective for accounting periods commencing on or after January 1, 2022, as specified.

- *IAS 37 – Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Costs of Fulfilling a Contract (Amendments to IAS 37)*[1]
- *IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)*[2]
- *IAS 1 – Presentation of Financial Statements– Disclosure of Accounting Policies (Amendments to IAS 1)*[2]
- *IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates (Amendments to IAS 8*[2]

[1]Effective for annual periods beginning on or after January 1, 2022, with earlier application permitted.
[2]Effective for annual periods beginning on or after January 1, 2023, with earlier application permitted.

4.1 IAS 37 – Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Costs of Fulfilling a Contract (Amendments to IAS 37)

The amendments to IAS 37 specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract, such as direct labour and materials, or an allocation of other costs that relate directly to fulfilling contracts, such as the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract. These amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments and are currently not applicable to Churchill Falls, however, may apply to future transactions.

4.2 IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

The IASB issued amendments to IAS 1 to promote consistency in applying the requirements by helping companies determine whether, in the Statement of Financial Position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The classification is based on rights that are in existence at the end of the reporting period and specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. The amendments are applied retrospectively upon adoption. Management is currently assessing the amendments and any potential impact on Churchill Falls' financial statements.

4.3 IAS 1 – Presentation of Financial Statements– Disclosure of Accounting Policies (Amendments to IAS 1)

The IASB issued amendments to IAS 1, which change the requirements with regard to the disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The application of these amendments is not expected to have an impact on Churchill Falls' financial statements.

4.4 IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates (Amendments to IAS 8)

The IASB issued amendments to IAS 8 to clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. The amendments are intended to improve the understanding of the existing requirements and therefore are not expected to have an impact on Churchill Falls' financial statements.

5. TRADE AND OTHER RECEIVABLES

As at December 31 (thousands of Canadian dollars)	**2021**	2020
Due from related parties	**21,537**	18,290
Other receivables	**4,950**	2,760
	26,487	21,050

Other receivables include HST and other miscellaneous amounts.

As at December 31 (thousands of Canadian dollars)	**2021**	2020
0-60 days	**26,055**	20,835
60+ days	**432**	215
	26,487	21,050

6. INVENTORIES

As at December 31 (thousands of Canadian dollars)	**2021**	2020
Materials and other	**16,054**	15,533
Construction aggregates	**2,600**	2,600
Fuel	**137**	87
	18,791	18,220

The cost of inventories recognized as an expense during the year is $2.0 million (2020 - $1.9 million) and is included in operating costs in the Statement of Profit and Comprehensive Income.

7. PROPERTY, PLANT AND EQUIPMENT

(thousands of Canadian dollars)	Hydroelectric Generation Plant	Transmission and Distribution	Service Facilities and Other	Construction in Progress	Total
Cost					
Balance at January 1, 2020	889,471	322,536	238,315	21,699	1,472,021
Additions	-	-	-	63,414	63,414
Decommissioning liabilities and revisions	-	(280)	-	-	(280)
Other adjustments	-	(622)	(32)	-	(654)
Disposals	(474)	(3,729)	(348)	-	(4,551)
Transfers	3,800	23,895	8,608	(36,303)	-
Balance at December 31, 2020	892,797	341,800	246,543	48,810	1,529,950
Additions	**-**	**-**	**-**	**72,958**	**72,958**
Decommissioning liabilities and revisions	**-**	**(250)**	**-**	**-**	**(250)**
Other adjustments	**-**	**(109)**	**-**	**-**	**(109)**
Disposals	**(4,517)**	**(928)**	**(255)**	**-**	**(5,700)**
Transfers	**38,686**	**26,399**	**26,649**	**(91,734)**	**-**
Balance at December 31, 2021	**926,966**	**366,912**	**272,937**	**30,034**	**1,596,849**
Depreciation					
Balance at January 1, 2020	450,777	141,609	108,841	-	701,227
Depreciation	14,191	6,585	9,538	-	30,314
Disposals	(393)	(2,116)	(282)	-	(2,791)
Balance at December 31, 2020	464,575	146,078	118,097	-	728,750
Depreciation	**14,458**	**6,953**	**9,154**	**-**	**30,565**
Disposals	**(3,339)**	**(750)**	**(220)**	**-**	**(4,309)**
Balance at December 31, 2021	**475,694**	**152,281**	**127,031**	**-**	**755,006**
Carrying value					
Balance at January 1, 2020	438,694	180,927	129,474	21,699	770,794
Balance at December 31, 2020	428,222	195,722	128,446	48,810	801,200
Balance at December 31, 2021	**451,272**	**214,631**	**145,906**	**30,034**	**841,843**

8. 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. In December 2021, $9.4 million was invested (2020 - $18.8 million) into the fund as part of the Shareholders' Agreement to reestablish the $75.0 million withdrawn in recent years.

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 movements during the year are as follows:

As at December 31 (thousands of Canadian dollars)	**2021**	2020
Reserve fund, beginning of the year	**58,487**	38,061
Principal contributions	**9,375**	18,750
Mark-to-market adjustment	**(1,636)**	1,676
Reserve fund, end of the year	**66,226**	58,487
Less: current portion	**(9,696)**	(4,208)
	56,530	54,279

The remaining reserve fund contribution in 2022 will restore the $75.0 million required reserve fund balance.

9. TRADE AND OTHER PAYABLES

As at December 31 (thousands of Canadian dollars)	**2021**	2020
Trade payables and accruals	**33,361**	45,143
Due to related parties	**1,374**	1,107
Other payables	**4,098**	2,418
	38,833	48,668

Other payables include HST and other miscellaneous amounts.

10. DEFERRED CONTRIBUTIONS

Churchill Falls has received contributions primarily from Transport Canada related to the airport. These contributions are deferred and amortized to other revenue over the life of the related items of property, plant and equipment.

As at December 31 (thousands of Canadian dollars)	**2021**	2020
Deferred contributions, beginning of the year	**9,223**	9,876
Additions	**-**	38
Amortization	**(700)**	(691)
Deferred contributions, end of the year	**8,523**	9,223
Less: current portion	**(701)**	(690)
	7,822	8,533

11. 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, 2021 and 2020 are as follows:

As at December 31 (thousands of Canadian dollars)	**2021**	2020
Decommissioning liabilities, beginning of the year	**1,000**	1,285
Accretion	**11**	32
Liabilities settled	**(142)**	(37)
Revisions	**(250)**	(280)
Decommissioning liabilities, end of the year	**619**	1,000

The total estimated undiscounted cash flows required to settle the PCB obligations at December 31, 2021 are $0.6 million (2020 - $1.2 million). Payments to settle the liability are expected to occur between 2022 and 2025. 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 2.0% (2020 - 0.9%).

12. EMPLOYEE FUTURE BENEFITS

12.1 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, 2021 of $2.5 million (2020 - $2.4 million) are expensed as incurred.

12.2 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 retirement allowance. For the year ended December 31, 2021, cash payments to beneficiaries for its unfunded other employee future benefits were $0.7 million (2020 - $0.9 million). An actuarial valuation was performed as at December 31, 2021.

As at December 31 (thousands of Canadian dollars)	**2021**	2020
Accrued benefit obligation		
Balance, beginning of the year	**36,899**	34,684
Current service cost	**1,722**	1,578
Interest cost	**1,033**	1,146
Transfers (a)	**(211)**	91
Benefits paid	**(700)**	(871)
Actuarial (gain) loss	**(5,742)**	271
Balance, end of the year	**33,001**	36,899

(a) When an employee transfers to/from a related party, the associated accrued benefit obligation is allocated to each respective party based on years of service.

For the year ended December 31 (thousands of Canadian dollars)	**2021**	2020
Component of benefit cost		
Current service cost	**1,722**	1,578
Interest cost	**1,033**	1,146
Total benefit expense for the year	**2,755**	2,724

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

	2021	2020
Discount rate - benefit cost	**2.70%**	3.20%
Discount rate - accrued benefit obligation	**3.35%**	2.70%
Rate of compensation increase	**3.50%**	3.50%

Assumed healthcare trend rates:

	2021	2020
Initial healthcare expense trend rate	**5.53%**	5.64%
Cost trend decline to	**3.60%**	3.60%
Current rate 5.53%, reducing linearly to 3.6% in 2040 and thereafter		

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

Increase (thousands of Canadian dollars)	**2021**	2020
Current service and interest cost	**580**	552
Accrued benefit obligation	**5,158**	6,228

Decrease (thousands of Canadian dollars)	**2021**	2020
Current service and interest cost	**(416)**	(399)
Accrued benefit obligation	**(3,935)**	(4,707)

13. SHAREHOLDERS' EQUITY

13.1 Share Capital

As at December 31 (thousands of Canadian dollars)	**2021**	2020
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.

13.2 Dividends Paid and Proposed

For the year ended December 31 (thousands of Canadian dollars)	**2021**	2020
Declared during the year		
Final preferred dividend for prior year	**669**	700
Interim preferred dividend for current year	**10,535**	6,931
	11,204	7,631
Proposed for approval, not recognized as payable at December 31		
Final dividend underpayment for current year	**893**	669

During 2021, Churchill Falls did not pay any common dividends (2020 - $nil).

14. NET FINANCE INCOME

For the year ended December 31 (thousands of Canadian dollars)	**2021**	2020
Finance income		
Interest on reserve fund	**1,285**	616
Bank interest income	**870**	1,281
	2,155	1,897
Finance expense		
Accretion of decommissioning liability	**11**	32
Other interest expense	**44**	44
	55	76
Net finance income	**2,100**	1,821

15. OTHER REVENUE

In 2019, Churchill Falls received judgment from the Québec Court of Appeal regarding a Motion for Declaratory Judgment filed by Hydro-Québec, relating to the interpretation of the 1969 Power Contract between Churchill Falls and Hydro-Québec and the associated Renewal Contract. In August 2021, Churchill Falls and Hydro-Québec reached a Settlement Agreement regarding the Declaratory Judgment case surrounding the interpretation of the Renewed Power Contract, which came into effect September 1, 2016, and alignment on a final Annual Energy Base, which establishes Hydro-Québec's annual energy entitlement for the term of the contract.

16. OPERATING COSTS

For the year ended December 31 (thousands of Canadian dollars)	**2021**	2020
Salaries and benefits	**40,943**	40,318
Maintenance and materials	**9,893**	9,745
Insurance	**4,303**	3,653
Professional services	**2,998**	2,567
Other operating costs	**793**	2,016
	58,930	58,299

17. OTHER EXPENSE

For the year ended December 31 (thousands of Canadian dollars)	**2021**	2020
Rental and royalty	**9,166**	6,546
Loss on disposal of property, plant and equipment	**1,064**	1,760
Other asset disposal costs	**-**	2
Realized foreign exchange (gain) loss	**(1)**	8
Unrealized foreign exchange loss (gain)	**2**	(4)
	10,231	8,312

18. FINANCIAL INSTRUMENTS

18.1 Fair Value

The estimated fair values of financial instruments as at December 31, 2021 and 2020 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 during the years ended December 31, 2021 and 2020.

As at December 31, 2021 and 2020, Churchill Falls did not have any Level 3 instruments.

	Level	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
(thousands of Canadian dollars)		**2021**		2020	
Financial assets					
Reserve fund	**2**	**66,226**	**66,226**	58,487	58,487

The fair values of cash, restricted cash, trade and other receivables, 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 are determined using observable inputs other than unadjusted quoted prices, such as interest rate yield curves and currency rates.

18.2 Risk Management

Churchill Falls is exposed to certain credit, liquidity and market 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, restricted cash, trade and other receivables, the reserve fund and is determined by 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 trade and other receivables is limited, as Churchill Falls' two main customers Hydro and Hydro-Québec are investment grade utilities. As at December 31, 2021, there was no allowance for doubtful accounts associated with these customers included in trade and other receivables (2020 - $nil).

Credit risk on cash and restricted cash 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 (%)
	2021		2020	
Provincial Governments	**AA- to AAA**	**10.58%**	AA- to AAA	**-**
Provincial Governments	**A- to A+**	**38.14%**	A- to A+	**40.58%**
Provincially owned utilities	**AA- to AAA-**	**4.82%**	AA- to AAA-	**8.26%**
Provincially owned utilities	**A- to A+**	**5.30%**	A- to A+	**6.00%**
Schedule 1 Canadian banks	**AA- to AAA-**	**15.59%**	AA- to AAA-	**18.53%**
Schedule 1 Canadian banks	**A- to A+**	**25.57%**	A- to A+	**26.63%**
		100%		**100%**

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 $24.0 million (2020 - $23.0 million) and business interruption insurance. Short-term liquidity is provided through cash on hand, funds from operations and a $10.0 million (2020 - $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, 2021.

(thousands of Canadian dollars)	< 1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	38,833	-	-	-	38,833
Rental and royalty payable	9,154	-	-	-	9,154
	47,987	-	-	-	47,987

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 FVTOCI, which includes the reserve fund. Expected future cash flows from these assets and liabilities are also impacted in certain circumstances, such as when reserve fund securities are sold prior to maturity.

The impact of a 0.5% change in interest rates associated with the reserve fund on Other comprehensive income is as follows:

(thousands of Canadian dollars)	Decrease	Increase
Interest on reserve fund	832	(818)

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.

19. 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
The Province	100% shareholder of Nalcor
Nalcor	100% shareholder of Hydro
Twin Falls	Jointly controlled by Churchill Falls
Labrador Transmission Corporation	100% owned subsidiary of Nalcor
Muskrat Falls Corporation	100% owned subsidiary of Nalcor
Labrador-Island Link Limited Partnership	100% owned subsidiary of Nalcor

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	**2021**	2020
Trade and other receivables:			
Energy sales	Hydro-Québec	**6,682**	4,921
Guaranteed winter availability	Hydro-Québec	**8,291**	7,763
Energy sales and other	Hydro	**4,243**	4,033
Engineering, technical, management and administrative services	Other	**280**	2
Engineering, technical, management and administrative services	Hydro-Québec	**2,041**	1,571
Trade and other payables:			
Engineering, technical, management and administrative services	Other	**1,374**	1,107
Rental and royalty payable	The Province	**9,154**	6,546

For the year ended December 31 (thousands of Canadian dollars)		**2021**	2020
Energy sales:			
Long-term power contract	Hydro-Québec	**63,146**	57,993
Long-term power contracts	Hydro	**48,388**	48,248
Guaranteed winter availability:			
Guaranteed winter availability contract	Hydro-Québec	**37,679**	36,990
Other revenue:			
Annual Energy Base & excess energy settlement	Hydro-Québec	**24,290**	-
Operating (recovery) costs:			
Engineering, technical, management and administrative services	Hydro-Québec	**(809)**	(2,148)
Engineering, technical, management and administrative services	Hydro	**687**	481
Rental and royalty expense	The Province	**9,166**	6,546
Engineering, technical, management and administrative services	Other	**2,466**	2,517

19.1 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)	**2021**	2020
Salaries and employee benefits	**288**	361
Post-employment benefits	**29**	37
	317	398

20. COMMITMENTS AND CONTINGENCIES

(a) Outstanding commitments for capital projects total approximately $14.4 million as at December 31, 2021 (2020 - $32.1 million).

(b) Churchill Falls is subject to legal claims with respect to power delivery, construction, impact on land use and other various matters. For some legal claims, it is not possible at this time to predict with any certainty the outcome of such litigation. Should these claims result in an unfavourable outcome for Churchill Falls, they may have a significant adverse effect on Churchill Falls' financial position.

(c) In December of 2021, CF(L)Co entered into an agreement for the sale of excess energy to Hydro Quebec. The Agreement has a term of 5 years.

(d) Water Management Agreement (WMA) was enacted by the Board of Commissioners of Public Utilities between Churchill Falls and Nalcor. Nalcor subsequently assigned the WMA to Muskrat Falls. The agreement provides for coordinated production for the efficient use of water on the Churchill River system by ensuring that water is available to meet delivery requirements and contractual commitments for both Churchill Falls and Muskrat Falls, while maximizing the energy produced from the water resource. As at December 31, 2021 Muskrat Falls has stored approximately 1.3 Twh of energy in the Churchill Falls reservoir.

21. 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 remain consistent, in line 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 common 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, 2021 (2020 - $nil).

Churchill Falls has issued three irrevocable letters of credit totalling $2.0 million (2020 – $2.0 million), $1.0 million of which does not impact the borrowing limit of the operating credit facility (2020 - $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.

22. SUPPLEMENTARY CASH FLOW INFORMATION

For the year ended December 31 (thousands of Canadian dollars)	**2021**	2020
Trade and other receivables	**(5,535)**	5,075
Inventories	**(571)**	(1,306)
Prepayments	**(22)**	(517)
Trade and other payables	**(9,680)**	13,057
Rental and royalty payable	**2,608**	(337)
Change in non-cash working capital balances	**(13,200)**	15,972
Related to:		
Operating activities	**(13,809)**	11,629
Investing activities	**609**	4,343
	(13,200)	15,972

23. SUBSEQUENT EVENT

On January 25, 2022 Churchill Falls purchased Wabush Resources Inc.'s 12.5% interest and Wabush Iron Co. Limited's 4.6% interest in Twin Falls Power Corporation Limited, increasing the ownership share to 50.4%.