CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022

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 consolidated financial statements of Churchill Falls (Labrador) Corporation Limited (the "Company"), which comprise of the consolidated statement of financial position as at December 31, 2022, and the consolidated statements of profit and comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated 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, 2022, 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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, 2023

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

As at December 31 (thousands of Canadian dollars)	Notes	**2022 (Note 5)**	2021
ASSETS			
Current assets			
Cash		**122,236**	99,813
Restricted cash		**301**	313
Trade and other receivables	6	**22,969**	26,487
Inventories	7	**19,071**	18,791
Current portion of reserve fund	9	**14,166**	9,696
Prepayments		**2,980**	3,117
Total current assets		**181,723**	158,217
Non-current assets			
Property, plant and equipment	8	**911,201**	841,843
Intangible assets		**904**	585
Investment in joint venture	5	**-**	1,170
Reserve fund	9	**60,755**	56,530
Total assets		**1,154,583**	1,058,345
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	10	**37,007**	38,833
Rental and royalty payable	21	**9,052**	9,154
Current portion of decommissioning and environmental liabilities	11	**3,400**	-
Current portion of deferred credits	12	**1,514**	-
Current portion of deferred contributions	13	**390**	701
Total current liabilities		**51,363**	48,688
Non-current liabilities			
Decommissioning and environmental liabilities	11	**520**	619
Deferred credits	12	**26,751**	-
Deferred contributions	13	**8,811**	7,822
Employee future benefits	14	**23,219**	33,001
Total liabilities		**110,664**	90,130
Shareholders' equity			
Share capital	15	**82,900**	82,900
Contributed capital		**8,195**	8,195
Reserves		**6,085**	(1,005)
Retained earnings		**946,739**	878,125
Total equity		**1,043,919**	968,215
Total liabilities and equity		**1,154,583**	1,058,345

Commitments and contingencies (Note 22)

See accompanying notes

On behalf of the Board:



DIRECTOR



DIRECTOR

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

For the year ended December 31 (thousands of Canadian dollars)	Notes	**2022 (Note 5)**	2021
Energy sales		**145,402**	111,534
Guaranteed winter availability		**34,279**	37,679
Net finance income	16	**5,018**	2,100
Other revenue	17	**939**	24,990
Revenue		**185,638**	176,303
Operating costs	18	**60,663**	58,930
Depreciation and amortization		**33,526**	30,723
Other expense	19	**9,513**	10,231
Share of loss of joint venture		**699**	806
Expenses		**104,401**	100,690
Profit for the year		**81,237**	75,613
Other comprehensive income			
Total items that may or have been reclassified to profit or loss:			
Net fair value loss on reserve fund	9	**(4,362)**	(1,636)
Actuarial gain on employee future benefits	14	**11,452**	5,742
Other comprehensive income for the year		**7,090**	4,106
Total comprehensive income for the year		**88,327**	79,719

See accompanying notes

CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED
CONSOLIDATED 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, 2022		**82,900**	**8,195**	**602**	**(1,607)**	**878,125**	**968,215**
Profit for the year		**-**	**-**	**-**	**-**	**81,237**	**81,237**
Net fair value gain on reserve fund	**9**	**-**	**-**	**(4,362)**	**-**	**-**	**(4,362)**
Actuarial gain on employee future benefits	**14**	**-**	**-**	**-**	**11,452**	**-**	**11,452**
Total comprehensive income for the year		**-**	**-**	**(4,362)**	**11,452**	**81,237**	**88,327**
Acquisition of remaining shares of subsidiary	**5**	**-**	**-**	**-**	**-**	**770**	**770**
Preferred dividends	**15**	**-**	**-**	**-**	**-**	**(13,393)**	**(13,393)**
Balance at December 31, 2022		**82,900**	**8,195**	**(3,760)**	**9,845**	**946,739**	**1,043,919**
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
Net fair value gain on reserve fund	9	-	-	(1,636)	-	-	(1,636)
Actuarial gain on employee future benefits	14	-	-	-	5,742	-	5,742
Total comprehensive income for the year		-	-	(1,636)	5,742	75,613	79,719
Preferred dividends	15	-	-	-	-	(11,204)	(11,204)
Balance at December 31, 2021		82,900	8,195	602	(1,607)	878,125	968,215

See accompanying notes

CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31 (thousands of Canadian dollars)	**Notes**	**2022**	2021
Operating activities			
Profit for the year		**81,237**	75,613
Adjustments to reconcile profit to cash provided from operating activities:			
Depreciation and amortization		**33,526**	30,723
Employee benefits		**1,670**	1,844
Finance income	**16**	**(5,082)**	(2,155)
Finance expense	**16**	**64**	55
Other		**417**	1,097
		111,832	107,177
Changes in non-cash working capital balances	**24**	**704**	(13,809)
Interest received		**5,035**	2,253
Interest paid		**(30)**	(44)
Net cash provided from operating activities		**117,541**	95,577
Investing activities			
Additions to property, plant and equipment	**8**	**(75,155)**	(72,958)
Additions to intangible assets		**(475)**	(128)
Contributions to reserve fund	**9**	**(13,057)**	(9,375)
Cash acquired on acquisition of subsidiary		**5,547**	-
Changes in non-cash working capital balances	**24**	**1,020**	609
Purchase of additional shares of Twin Falls		**(875)**	-
Other		**1,258**	258
Net cash used in investing activities		**(81,737)**	(81,594)
Financing activities			
Decrease (increase) in restricted cash		**12**	(39)
Preferred dividends	**15**	**(13,393)**	(11,204)
Net cash used in financing activities		**(13,381)**	(11,243)
Net increase in cash		**22,423**	2,740
Cash, beginning of the year		**99,813**	97,073
Cash, end of the year		**122,236**	99,813

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. Churchill Falls holds a 100% interest in Twin Falls Power Corporation (Twin Falls). 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 consolidated 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 and all values rounded to the nearest thousand, except when otherwise noted. The financial statements were approved by Churchill Falls' Board of Directors on March 2, 2023.

2.2 Basis of Consolidation

The financial statements include the financial statements of Churchill Falls and its wholly owned subsidiary Twin Falls. As of November 1, 2022, Churchill Falls became the sole shareholder of Twin Falls, see note 5 for further details. Intercompany transactions and balances have been eliminated upon consolidation.

2.3 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.

2.4 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 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. 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 Consolidated 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 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 include roads, telecontrol, buildings, airport, aircraft, vehicles, furniture, tools and equipment, and the town site, including municipal water and sanitary sewer systems.

The carrying amount of a replaced asset is derecognized when replaced. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recorded in Other expense.

2.6 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

2.7 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 Consolidated Statement of Profit and Comprehensive Income in the period in which they are incurred.

2.8 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 Consolidated Statement of Profit and Comprehensive Income.

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 Consolidated 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 Consolidated 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 Consolidated 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, capacity and telecommunication services. 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 satisfies its performance obligation 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 Consolidated Statement of Profit and Comprehensive Income as Other expense.

2.15 Income Taxes

Churchill Falls is exempt from paying income taxes under Paragraph 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 Consolidated 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, FVTOCI, 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. Churchill Falls does not currently have financial assets measured at FVTPL.

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.

Financial Liabilities at FVTPL

Financial liabilities that do not meet the criteria for being measured at amortized cost or FVTOCI are measured at FVTPL. Financial liabilities 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 to the extent they are not part of a designated hedging relationship. Churchill Falls does not currently have financial liabilities measured at FVTPL.

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 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 Consolidated Statement of Financial Position and transferred to the Consolidated 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 Consolidated Statement of Profit and Comprehensive Income in the period in which they become receivable.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the consolidated 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 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.

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 and Environmental 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 Consolidated 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. The fair value of future expenditures required to settle obligations associated with environmental liabilities are recognized to the extent that they are reasonably estimated and are recorded at fair value.

(iii) Employee Future 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 amendments 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– 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]
- *IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)*[3]

[1] Effective for annual periods beginning on or after January 1, 2022.

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

[3] These amendments were originally effective for annual periods beginning on or after January 1, 2023, however, in 2022 the IASB deferred the effective date to January 1, 2024, 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 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. Management does not expect this change will have a material impact on the financial statements.

4.3 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 will not have an impact on Churchill Falls' financial statements.

4.4 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. Additional information was added to clarify that only covenants with which an entity is required to comply on or before the reporting date affect the classification of a liability as current or non-current. In addition, an entity has to disclose information in the notes that enables users of financial statements to understand the risk that non-current liabilities with covenants could become repayable within twelve months. The amendments are applied retrospectively upon adoption. The application of these amendments is not expected to have a material impact on Churchill Falls' financial statements.

5. ACQUISITION OF SUBSIDIARY

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 for a purchase price of $875 thousand, increasing its ownership share to 50.4%. On November 1, 2022, Churchill Falls purchased IOC.'s 49.6% interest in Twin Falls for a nominal amount and provided an indemnity to IOC for any contingent environmental liabilities associated with Twin Falls. The purchase of the IOC shares increased Churchill Fall's ownership to 100.0%.

Given Twin Falls has no assets, other than cash, that would be capable of being managed for the purpose of providing goods or services to customers, or otherwise generating income, Twin Falls does not meet the definition of a business and therefore the acquisition is scoped out of IFRS 3 *Business Combinations*. Upon acquisition of the remaining shares, Churchill Falls measured its previously held equity interest in Twin Falls using the accumulated carrying amount and, accordingly, no gain or loss was recorded.

The acquisition has been accounted for prospectively in the consolidated financial statements. As such, the Consolidated Statement of Financial Position as at December 31, 2022 includes Twin Falls assets and liabilities, with any intercompany transactions eliminated.

The following table outlines the balances of assets acquired and liabilities assumed as of the acquisition date:

(thousands of Canadian dollars)	**November 1, 2022**
Cash	**5,534**
Trade and other receivables	**2**
Total assets acquired	**5,536**
Trade and other payables	**(17)**
Environmental liability	**(3,400)**
Total liabilities	**(3,417)**
Net assets	**2,119**
Carrying value of investments in Twin Falls	**(1,349)**
Acquisition adjustment per statement of changes in equity	**770**

The Consolidated Statement of Profit and Comprehensive Income for the year ended December 31, 2022 includes a Share of loss of joint venture representing Churchill Falls' share of Twin Falls net revenue and expenditures for the period of January 1, 2022 through October 31, 2022. The revenue and expenditures for Twin Falls post acquisition for the period of November 1, 2022 to December 31, 2022 have been consolidated with any intercompany transactions eliminated.

6. TRADE AND OTHER RECEIVABLES

As at December 31 (thousands of Canadian dollars)	**2022**	2021
Due from related parties	**18,552**	21,537
Other receivables	**4,417**	4,950
	22,969	26,487

Other receivables include HST and other miscellaneous amounts.

As at December 31 (thousands of Canadian dollars)	**2022**	2021
0-60 days	**22,631**	26,055
60+ days	**338**	432
	22,969	26,487

7. INVENTORIES

As at December 31 (thousands of Canadian dollars)	**2022**	2021
Materials and other	**16,640**	16,054
Construction aggregates	**2,278**	2,600
Fuel	**153**	137
	19,071	18,791

The cost of inventories recognized as an expense during the year is $2.1 million (2021 - $2.0 million) and is included in operating costs in the Consolidated Statement of Profit and Comprehensive Income.

8. 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, 2021	892,797	341,800	246,543	48,810	1,529,950
Additions	-	-	-	72,958	72,958
Decommissioning liability 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
Additions	**-**	**-**	**28,517**	**75,155**	**103,672**
Decommissioning liability and revisions	**-**	**(39)**	**-**	**-**	**(39)**
Other adjustments	**(4)**	**(245)**	**34**	**(64)**	**(279)**
Disposals	**(1,913)**	**(776)**	**(2,064)**	**-**	**(4,753)**
Transfers	**25,674**	**31,154**	**34,851**	**(91,679)**	**-**
Balance at December 31, 2022	**950,723**	**397,006**	**334,275**	**13,446**	**1,695,450**
Depreciation					
Balance at January 1, 2021	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
Depreciation	**15,327**	**7,812**	**10,230**	**-**	**33,369**
Disposals	**(1,483)**	**(714)**	**(1,929)**	**-**	**(4,126)**
Balance at December 31, 2022	**489,538**	**159,379**	**135,332**	**-**	**784,249**
Carrying value					
Balance at January 1, 2021	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
Balance at December 31, 2022	**461,185**	**237,627**	**198,943**	**13,446**	**911,201**

During the year, Churchill Falls recognized non-cash additions to Property, plant and equipment of $28,517 thousand (2021 - $nil) related to the transfer of the microwave telecommunications assets from Hydro-Québec. See Note 12 for further information.

9. RESERVE FUND

Under the Shareholders' Agreement, Churchill Falls is required to maintain a $75.0 million segregated reserve fund to contribute towards the funding of capital expenditures related to Churchill Falls' existing facilities and their replacement. In December 2022, $13.1 million was invested (2021 - $9.4 million) into the fund to reestablish the $75.0 million in accordance with the Shareholders' Agreement.

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 years ended December 31, 2022 and 2021 are as follows:

As at December 31 (thousands of Canadian dollars)	**2022**	2021
Reserve fund, beginning of the year	**66,226**	58,487
Principal contributions	**13,057**	9,375
Mark-to-market adjustment	**(4,362)**	(1,636)
Reserve fund, end of the year	**74,921**	66,226
Less: current portion	**(14,166)**	(9,696)
	60,755	56,530

As at December 31, 2022, the reserve fund has been restored to the required balance per the Shareholders' Agreement.

10. TRADE AND OTHER PAYABLES

As at December 31 (thousands of Canadian dollars)	**2022**	2021
Trade payables and accruals	**32,224**	33,361
Due to related parties	**946**	1,374
Other payables	**3,837**	4,098
	37,007	38,833

Other payables include HST and other miscellaneous amounts.

11. DECOMMISSIONING AND ENVIRONMENTAL LIABILITIES

Churchill Falls has recognized liabilities associated with the disposal of Polychlorinated Biphenyls (PCB). The reconciliation of the beginning and ending carrying amounts of the decommissioning and environmental liabilities as at December 31, 2022 and 2021 are as follows:

As at December 31 (thousands of Canadian dollars)	**2022**	2021
Balance, beginning of the year	**619**	1,000
Additions	**3,400**	-
Accretion	**12**	11
Liabilities settled	**(72)**	(142)
Revisions	**(39)**	(250)
Balance, end of the year	**3,920**	619
Less: current portion	**(3,400)**	-
	520	619

Additions to decommissioning and environmental liabilities in the current year relate to Churchill Falls' acquisition of the remaining shares of its subsidiary Twin Falls and related environmental obligation. The total estimated undiscounted cash flows required to settle the PCB obligations at December 31, 2022 are $4.0 million (2021- $0.7 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 5.5% (2021 - 2.0%). Payments to settle the liabilities are expected to occur between 2023 and 2025. The current portion relates to estimated settlements within the next twelve months.

12. DEFERRED CREDITS

The deferred credits relate to Churchill Falls' obligation to provide required telecommunications services to Hydro-Québec in exchange for significant upgrades to the microwave telecommunications equipment linking the Churchill Falls Generating Station to Hydro-Québec's transmission system. On November 4, 2022, Churchill Falls received legal title to the assets in consideration for providing telecommunications services to Hydro-Québec over the term of the contract ending August 31, 2041. The deferred credit will be recognized in Other income evenly over the contract term as Churchill Falls satisfies its performance obligation.

As at December 31 (thousands of Canadian dollars)	**2022**	2021
Additions	**28,517**	-
Amortization	**(252)**	-
Deferred credits, end of the year	**28,265**	-
Less: current portion	**(1,514)**	-
	26,751	-

13. 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)	**2022**	2021
Deferred contributions, beginning of the year	**8,523**	9,223
Additions	**1,330**	-
Amortization	**(652)**	(700)
Deferred contributions, end of the year	**9,201**	8,523
Less: current portion	**(390)**	(701)
	8,811	7,822

14. EMPLOYEE FUTURE BENEFITS

14.1 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, 2022 of $2.4 million (2021 - $2.5 million) are expensed as incurred.

14.2 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, 2022, cash payments to beneficiaries for its unfunded other employee future benefits were $1.0 million (2021 - $0.7 million). An actuarial valuation was performed as at December 31, 2022.

As at December 31 (thousands of Canadian dollars)	**2022**	2021
Accrued benefit obligation		
Balance, beginning of the year	**33,001**	36,899
Current service cost	**1,469**	1,722
Interest cost	**1,139**	1,033
Transfers (a)	**21**	(211)
Benefits paid	**(959)**	(700)
Actuarial gain	**(11,452)**	(5,742)
Balance, end of the year	**23,219**	33,001

(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)	**2022**	2021
Component of benefit cost		
Current service cost	**1,469**	1,722
Interest cost	**1,139**	1,033
Total benefit expense for the year	**2,608**	2,755

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

	2022	2021
Discount rate - benefit cost	**3.35%**	2.70%
Discount rate - accrued benefit obligation	**5.20%**	3.35%
Rate of compensation increase	**3.50%**	3.50%

Assumed healthcare trend rates:

	2022	2021
Initial healthcare expense trend rate	**5.42%**	5.53%
Cost trend decline to	**3.60%**	3.60%
Current rate 5.42%, 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)	**2022**	2021
Current service and interest cost	**502**	580
Accrued benefit obligation	**1,715**	5,158

Decrease (thousands of Canadian dollars)	**2022**	2021
Current service and interest cost	**(359)**	(416)
Accrued benefit obligation	**(1,320)**	(3,935)

15. SHAREHOLDERS' EQUITY

15.1 Share Capital

As at December 31 (thousands of Canadian dollars)	**2022**	2021
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.

15.2 Dividends Paid and Proposed

For the year ended December 31 (thousands of Canadian dollars)	**2022**	2021
Declared during the year		
Final preferred dividend for prior year	**893**	669
Interim preferred dividend for current year	**12,500**	10,535
	13,393	11,204
Proposed for approval, not recognized at December 31		
Final dividend (recoverable) underpayment for current year	**(667)**	893

Churchill Falls did not pay any common dividends for the year ended December 31, 2022 (December 31, 2021 - $nil).

16. NET FINANCE INCOME

For the year ended December 31 (thousands of Canadian dollars)	**2022**	2021
Finance income		
Interest on reserve fund	**2,066**	1,285
Bank interest income	**3,016**	870
	5,082	2,155
Finance expense		
Accretion of decommissioning and environmental liabilities	**12**	11
Other interest expense	**52**	44
	64	55
Net finance income	**5,018**	2,100

17. OTHER REVENUE

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. There was no such settlement in 2022.

18. OPERATING COSTS

For the year ended December 31 (thousands of Canadian dollars)	**2022**	2021
Salaries and benefits	**39,954**	40,943
Maintenance and materials	**9,635**	9,893
Insurance	**4,576**	4,303
Professional services	**2,952**	2,998
Other operating costs	**3,546**	793
	60,663	58,930

19. OTHER EXPENSE

For the year ended December 31 (thousands of Canadian dollars)	**2022**	2021
Rental and royalty	**9,051**	9,166
Loss on disposal of property, plant and equipment	**627**	1,065
Other (recoveries) expense	**(165)**	-
	9,513	10,231

20. FINANCIAL INSTRUMENTS

20.1 Fair Value

The estimated fair values of financial instruments as at December 31, 2022 and December 31, 2021 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 year ended December 31, 2022 and 2021.

As at December 31, 2022 and December 31, 2021, Churchill Falls did not have any Level 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
(thousands of Canadian dollars)		**December 31, 2022**		December 31, 2021	
Financial assets					
Reserve fund	**2**	**74,921**	**74,921**	66,226	66,226

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.

20.2 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 investing activities, based on the risk of non-performance by counterparties to financial instruments. The degree of exposure on cash, restricted cash, the reserve fund and energy sales including associated accounts receivable, 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 Consolidated 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, 2022, there was no allowance for doubtful accounts associated with these customers included in trade and other receivables (2021 - $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 (%)
	2022		2021	
Government of Canada	**AAA**	**2.56%**	AAA	**-**
Provincial Governments	**AA- to AAA**	**16.37%**	AA- to AAA	**10.58%**
Provincial Governments	**A- to A+**	**39.26%**	A- to A+	**38.14%**
Provincially owned utilities	**AA- to AAA-**	**4.14%**	AA- to AAA-	**4.82%**
Provincially owned utilities	**A- to A+**	**2.31%**	A- to A+	**5.30%**
Canadian Schedule 1 banks	**AA- to AAA-**	**12.95%**	AA- to AAA-	**15.59%**
Canadian Schedule 1 banks	**A- to A+**	**22.41%**	A- to A+	**25.57%**
		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 (2021 - $24.0 million) and business interruption insurance. Short-term liquidity is provided through cash on hand, funds from operations and a $10.0 million (2021 - $10.0 million) unsecured credit facility. Long-term liquidity risk is managed by maintenance of the reserve fund in accordance with the 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, 2022.

(thousands of Canadian dollars)	< 1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	37,007	-	-	-	37,007
Rental and royalty payable	9,052	-	-	-	9,052
	46,059	-	-	-	46,059

Market Risk

In carrying out its operating and investing activities, 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. Market price movements to which Churchill Falls has significant exposure include those relating to prevailing interest rates.

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	850	(836)

21. RELATED PARTY TRANSACTIONS

Churchill Falls enters into various transactions with its shareholders and other related parties. Unless otherwise noted, 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. Outstanding balances due to or from related parties are non-interest bearing with settlement within 30 days, unless otherwise stated.

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	Wholly-owned subsidiary of Churchill Falls as of November 1, 2022
Labrador Transmission Corporation	Wholly-owned subsidiary of Nalcor
Muskrat Falls Corporation	Wholly-owned subsidiary of Nalcor
Labrador-Island Link Limited Partnership	Limited partnership between a wholly-owned subsidiary of Nalcor and Emera Newfoundland and Labrador Island Link Inc.

Significant related party transactions, which are not otherwise disclosed separately in the consolidated financial statements, are summarized below:

As at December 31 (thousands of Canadian dollars)		**2022**	2021
Trade and other receivables:			
Hydro-Québec		**14,286**	17,014
Hydro		**4,266**	4,243
Rental and royalty payable:			
The Province	(a)	**9,052**	9,154
Trade and other payables:			
Other		**946**	1,374

For the year ended December 31 (thousands of Canadian dollars)	**2022**	2021
Energy sales:		
Hydro-Québec	**95,383**	63,146
Hydro	**50,019**	48,388
Guaranteed winter availability:		
Hydro-Québec	**34,279**	37,679
Other revenue:		
Hydro-Québec	**287**	24,290
Other expense:		
The Province	**9,052**	9,166
Operating costs:		
Hydro	**946**	687

(a) 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, which is payable on an annual basis before March 31 of the following fiscal year.

21.1 Key Management Personnel

Compensation for key management personnel, which Churchill Falls defines as its executives who have the primary authority and responsibility in planning, directing and controlling the activities of the entity, includes compensation for senior executives. Salaries and employee benefits include costs such as base salaries 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)	**2022**	2021
Salaries and employee benefits	**70**	288
Post-employment benefits	**7**	29
	77	317

22. COMMITMENTS AND CONTINGENCIES

(a) Outstanding commitments for capital projects total approximately $26.4 million as at December 31, 2022 (December 31, 2021 - $14.4 million).

(b) Churchill Falls is subject to legal claims with respect to impact on land use, energy and capacity delivery, construction 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) The Water Management Agreement between Churchill Falls and Muskrat Falls 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, 2022, Muskrat Falls has stored the equivalent of approximately 1.5 Twh (December 31, 2021 – 1.3 Twh) of energy in the Churchill Falls reservoir.

23. CAPITAL MANAGEMENT

Churchill Falls' objective when managing capital is to maintain its ability to continue as a going concern. Churchill Falls' requirements for capital in the future are expected to 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, 2022 (2021 - $nil).

Churchill Falls has issued three irrevocable letters of credit totalling $2.0 million (2021 – $2.0 million), $1.0 million of which does not impact the borrowing limit of the operating credit facility (2021 - $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.

24. SUPPLEMENTARY CASH FLOW INFORMATION

For the year ended December 31 (thousands of Canadian dollars)	**2022**	2021
Trade and other receivables	**3,518**	(5,535)
Inventories	**(280)**	(571)
Prepayments	**137**	(22)
Trade and other payables	**(1,549)**	(9,680)
Rental and royalty payable	**(102)**	2,608
Change in non-cash working capital balances	**1,724**	(13,200)
Related to:		
Operating activities	**704**	(13,809)
Investing activities	**1,020**	609
	1,724	(13,200)