

**TWIN FALLS POWER CORPORATION LIMITED**  
**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**June 30, 2015**  
**(Unaudited)**

**TWIN FALLS POWER CORPORATION LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
(Unaudited)

<i>As at (thousands of Canadian dollars)</i>	Notes	<b>June 30 2015</b>	December 31 2014
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents		<b>2,589</b>	1,369
Short-term investments		<b>3,020</b>	5,247
Trade and other receivables	3	<b>593</b>	3,709
<b>Total current assets</b>		<b>6,202</b>	10,325
Non-current assets			
Other receivables	3	<b>471</b>	-
Property, plant and equipment	4	<b>367</b>	388
<b>Total assets</b>		<b>7,040</b>	10,713
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities			
Trade and other payables		<b>20</b>	3,264
Environmental liabilities		<b>150</b>	621
<b>Total current liabilities</b>		<b>170</b>	3,885
Non-current liabilities			
Environmental liabilities		<b>471</b>	-
Deferred income taxes		<b>94</b>	100
<b>Total liabilities</b>		<b>735</b>	3,985
Shareholders' equity			
Share capital	5	<b>2,513</b>	2,513
Retained earnings		<b>3,792</b>	4,215
<b>Total shareholders' equity</b>		<b>6,305</b>	6,728
<b>Total liabilities and shareholders' equity</b>		<b>7,040</b>	10,713

Description of business and going concern (Note 1)

Commitments and contingencies (Note 10)

*See accompanying notes*

**TWIN FALLS POWER CORPORATION LIMITED**  
**STATEMENT OF PROFIT AND COMPREHENSIVE INCOME**  
(Unaudited)

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Six months ended	
		2015	2014	2015	2014
Power sales		-	1,226	-	2,453
Revenue		-	1,226	-	2,453
Operating costs	6	<b>493</b>	598	<b>558</b>	1,173
Depreciation	4	<b>10</b>	10	<b>21</b>	21
Net finance (income) expense	7	<b>(15)</b>	(14)	<b>(32)</b>	(27)
(Loss) profit before income taxes		<b>(488)</b>	632	<b>(547)</b>	1,286
Current income tax (recovery) expense		<b>(105)</b>	164	<b>(118)</b>	334
Deferred income tax (recovery) expense		<b>(3)</b>	(4)	<b>(6)</b>	(7)
Income tax (recovery) expense		<b>(108)</b>	160	<b>(124)</b>	327
(Loss) profit for the period		<b>(380)</b>	472	<b>(423)</b>	959

*See accompanying notes*

**TWIN FALLS POWER CORPORATION LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**(Unaudited)**

<i>(thousands of Canadian dollars)</i>	<b>Share Capital</b>	<b>Retained Earnings</b>	<b>Total</b>
<b>Balance at January 1, 2015</b>	<b>2,513</b>	<b>4,215</b>	<b>6,728</b>
<b>Loss for the period</b>	<b>-</b>	<b>(423)</b>	<b>(423)</b>
<b>Balance at June 30, 2015</b>	<b>2,513</b>	<b>3,792</b>	<b>6,305</b>
Balance at January 1, 2014	2,513	2,534	5,047
Profit for the period	-	959	959
Balance at June 30, 2014	2,513	3,493	6,006

*See accompanying notes*

**TWIN FALLS POWER CORPORATION LIMITED**  
**STATEMENT OF CASH FLOWS**  
**(Unaudited)**

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Notes	<b>Three months ended</b>		<b>Six months ended</b>	
		<b>2015</b>	2014	<b>2015</b>	2014
Cash provided from (used in)					
Operating activities					
(Loss) profit for the period		<b>(380)</b>	472	<b>(423)</b>	959
Adjusted for items not involving a cash flow:					
Depreciation	4	<b>10</b>	10	<b>21</b>	21
Deferred income tax recovery		<b>(3)</b>	(4)	<b>(6)</b>	(7)
		<b>(373)</b>	478	<b>(408)</b>	973
Changes in non-cash working capital balances	8	<b>731</b>	(11)	<b>(128)</b>	(77)
<b>Net cash (used in) provided from operating activities</b>		<b>358</b>	467	<b>(536)</b>	896
Investing activity					
(Increase) in long-term receivables	3	<b>(471)</b>	-	<b>(471)</b>	-
(Increase) decrease in short-term investments		<b>(1,003)</b>	(516)	<b>2,227</b>	(1,426)
<b>Net cash (used in) provided from investing activity</b>		<b>(1,474)</b>	(516)	<b>1,756</b>	(1,426)
Net (decrease) increase in cash and cash equivalents		<b>(1,116)</b>	(49)	<b>1,220</b>	(530)
Cash and cash equivalents, beginning of period		<b>3,705</b>	1,089	<b>1,369</b>	1,570
<b>Cash and cash equivalents, end of period</b>		<b>2,589</b>	1,040	<b>2,589</b>	1,040

Supplementary cash flow information (Note 8)

*See accompanying notes*

**TWIN FALLS POWER CORPORATION LIMITED**  
**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)**

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**1. DESCRIPTION OF BUSINESS AND GOING CONCERN**

Twin Falls Power Corporation Limited (Twin Falls) is incorporated under the laws of Canada and has developed a 225 megawatt (MW) hydroelectric generating plant on the Unknown River in Labrador. The plant has been inoperative since 1974.

These condensed interim financial statements have been prepared by Management in accordance with International Financial Reporting Standards (IFRS) applicable to a going concern, which assumes Twin Falls will be able to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future.

On December 31, 2014, the Sub-lease dated November 15, 1961, with Churchill Falls (Labrador) Corporation Limited (Churchill Falls) for the right to develop hydroelectric power on the Unknown River (the Sub-lease) expired. Twin Falls, which is not a party to any power purchase agreements beyond December 31, 2014, is a party to various agreements signed between Newfoundland and Labrador Hydro (Hydro), Churchill Falls and third parties utilizing assets in which Twin Falls has an ownership interest. As such, Management has not made the decision to formally cease operations within the current fiscal year. Any changes to Twin Falls operations impacting the values of these assets would be subject to Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) review and approval, given Hydro's involvement.

As at June 30, 2015, Twin Falls has sufficient funds to discharge all known and measurable liabilities. Accordingly, these condensed interim financial statements do not include adjustments to the carrying values and classification of assets and liabilities that may be necessary should Twin Falls no longer be a going concern. These adjustments could be material.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Statement of Compliance and Basis of Measurement**

These condensed interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting and have been prepared using accounting policies consistent with those used in the preparation of the annual audited financial statements for the year ended December 31, 2014.

These condensed interim financial statements do not include all of the disclosures normally found in Twin Falls' annual audited financial statements and should be read in conjunction with the annual audited financial statements.

These condensed interim financial statements have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets which have been measured at fair value. The condensed interim financial statements are presented in Canadian dollars and all values rounded to the nearest thousand, except when otherwise noted.

**3. TRADE AND OTHER RECEIVABLES**

	<b>June 30</b>	December 31
	<b>2015</b>	2014
<i>(thousands of Canadian dollars)</i>		
Receivables due from related parties	<b>1,364</b>	3,709
Other receivables	<b>170</b>	-
Allowance for doubtful accounts	<b>(470)</b>	-
	<b>1,064</b>	3,709
Less: current portion	<b>(593)</b>	(3,709)
	<b>471</b>	-

**TWIN FALLS POWER CORPORATION LIMITED**  
**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)**

**4. PROPERTY, PLANT AND EQUIPMENT**

<i>(thousands of Canadian dollars)</i>	Transmission and Terminals	Service Facilities and Other	Total
<b>Cost</b>			
Balance at January 1, 2014	6,122	431	6,553
Balance at December 31, 2014	6,122	431	6,553
<b>Balance at June 30, 2015</b>	<b>6,122</b>	<b>431</b>	<b>6,553</b>
<b>Depreciation</b>			
Balance at January 1, 2014	5,781	342	6,123
Depreciation expense	34	8	42
Balance at December 31, 2014	5,815	350	6,165
<b>Depreciation expense</b>	<b>17</b>	<b>4</b>	<b>21</b>
<b>Balance at June 30, 2015</b>	<b>5,832</b>	<b>354</b>	<b>6,186</b>
<b>Carrying value</b>			
Balance at January 1, 2014	341	89	430
Balance at December 31, 2014	307	81	388
<b>Balance at June 30, 2015</b>	<b>290</b>	<b>77</b>	<b>367</b>

**5. SHAREHOLDERS' EQUITY**

**Share Capital**

The share capital of Twin Falls is summarized below. The Class A shares are entitled to four votes per share and the Class B shares are entitled to one vote per share but rank pari passu in all other respects.

<i>(thousands of Canadian dollars)</i>	<b>June 30 2015</b>	December 31 2014
<b>Share capital</b>		
<b>Authorized</b>		
Class A shares without nominal or par value - 500,000		
Class B shares without nominal or par value - 1,000,000		
<b>Issued, fully paid and outstanding</b>		
Class A shares – 250,000	<b>838</b>	838
Class B shares – 500,000	<b>1,675</b>	1,675
	<b>2,513</b>	2,513

**6. OPERATING COSTS**

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>2015</b>	2014	<b>2015</b>	2014
Power purchased	-	245	-	492
Rental and royalty expense	-	183	-	367
Maintenance and environmental costs	<b>2</b>	-	<b>52</b>	-
Capacity expansion	-	71	-	142
Bad debt expense	<b>470</b>	-	<b>470</b>	-
Other operating costs	<b>21</b>	99	<b>36</b>	172
	<b>493</b>	598	<b>558</b>	1,173

**TWIN FALLS POWER CORPORATION LIMITED**  
**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)**

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

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>2015</b>	2014	<b>2015</b>	2014
Interest on short-term investments	<b>(14)</b>	(12)	<b>(30)</b>	(22)
Other interest income	<b>(1)</b>	(2)	<b>(2)</b>	(5)
Net finance (income) expense	<b>(15)</b>	(14)	<b>(32)</b>	(27)

**8. SUPPLEMENTARY CASH FLOW INFORMATION**

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>2015</b>	2014	<b>2015</b>	2014
Trade and other receivables	<b>774</b>	(391)	<b>3,116</b>	1,370
Trade and other payables	<b>(43)</b>	442	<b>(3,244)</b>	(1,385)
Prepayments	-	(62)	-	(62)
Changes in non-cash working capital balances	<b>731</b>	(11)	<b>(128)</b>	(77)
Income taxes paid	-	147	<b>169</b>	252
Interest received	<b>26</b>	11	<b>33</b>	15
Interest paid	<b>1</b>	1	<b>1</b>	1

**9. RELATED PARTY TRANSACTIONS**

Twin 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 Twin Falls transacts are as follows:

<u>Related Party</u>	<u>Relationship</u>
Churchill Falls	33.3% shareholder of Twin Falls
Iron Ore Company of Canada (IOC)	49.6% shareholder of Twin Falls
Wabush Resources (Wabush Mines)	12.5% shareholder of Twin Falls
Wabush Iron Ore Co. (Wabush Mines)	4.6% shareholder of Twin Falls
Hydro	65.8% shareholder of Churchill Falls
Nalcor Energy (Nalcor)	100.0% shareholder of Hydro



**TWIN FALLS POWER CORPORATION LIMITED**  
**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)**

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

	Churchill Falls	Hydro	Iron Ore Company of Canada	Wabush Mines	Nalcor	Total
<i>(thousands of Canadian dollars)</i>						
<b>Six Months Ended June 30, 2015</b>						
Operating costs	<b>52</b>	<b>7</b>	-	-	<b>27</b>	<b>86</b>
Trade and other receivables	-	-	<b>425</b>	<b>939</b>	-	<b>1,364</b>
Trade and other payables	<b>6</b>	<b>(7)</b>	-	-	<b>6</b>	<b>5</b>
<i>(thousands of Canadian dollars)</i>						
<b>Six Months Ended June 30, 2014</b>						
Power sales	-	-	1,870	582	-	2,452
Operating costs	1,847	-	(775)	(34)	62	1,100
Trade and other receivables	-	-	2,567	547	-	3,114
Trade and other payables	1,007	-	-	-	-	1,007

- (a) During 2015, Twin Falls paid \$nil (2014 - \$1,038,000) to Churchill Falls for operating costs associated with Twin Falls that were incurred by Churchill Falls, rental and royalties, and management fees.
- (b) During 2015, Twin Falls recorded sales of power to IOC and Wabush Mines in the amounts of \$nil (2014 - \$1,870,000) and \$nil (2014 - \$582,000), respectively. As at June 30, 2015, power sales of \$nil (2014 - \$328,000) to IOC and \$55,000 (2014 - \$110,000) to Wabush Mines are recorded in trade and other receivables.
- (c) Twin Falls incurred \$52,000 (2014 - \$809,000) in maintenance costs. This work was performed by Churchill Falls and these costs were recovered from IOC and Wabush Mines in the amounts of \$nil (2014 - \$775,000) and \$nil (2014 - \$34,000), respectively. As at June 30, 2015, maintenance costs of (\$37,000) (2014 - \$984,000) to IOC and \$335,000 (2014 - \$5,000) to Wabush Mines are recorded in trade and other receivables.
- (d) Trade and other receivables includes \$621,000 (2014 - \$1,688,000) associated with recovery of environmental liabilities related to PCBs and the remediation of water contamination. These costs are recoverable from IOC and Wabush Mines in the amounts of \$462,000 (2014 - \$1,256,000) and \$159,000 (2014 - \$432,000) respectively.
- (e) During 2015, Twin Falls incurred \$27,000 (2014 - \$62,000) and \$7,000 (2014 - \$nil) in operating expenses related to transition costs provided by Nalcor and Hydro, respectively.
- (f) In February 2014, Wabush Mines ceased operations in Labrador.
- (g) On May 20, 2015, Wabush Mines obtained protection from their creditors under the federal Companies' Creditors Arrangement Act. As at June 30, 2015, Twin has recorded accounts receivable from Wabush Mines totalling \$939,000 (2014 - \$547,000). Due to uncertainty related to recovery of this amount related to the proceeding, Twin has provided \$470,000 (2014 - \$nil) as an allowance for doubtful accounts related to this amount receivable.

**10. COMMITMENTS AND CONTINGENCIES**

Due to the expiry of the Sub-lease, Twin Falls no longer has access to, or the ability to generate, hydroelectric power for sale. On December 22, 2014, a sub-lease agreement was signed between Hydro, Churchill Falls and Twin Falls, naming Hydro a lessee of the transmission lines and related assets from Labrador West to Churchill Falls, which will expire on December 31, 2015, unless it is terminated earlier by the parties.

On December 31, 2014, a lease agreement was signed between Wabush Resources Inc., Wabush Iron Co. Limited, Bloom Lake Railway Company Limited (collectively "Wabush Mines"), Hydro and Twin Falls whereby Wabush Mines leased to Hydro lands upon which the Wabush Terminal Station and the related transmission lines are located. To the extent that Twin Falls may have rights in or to the Wabush Terminal Station and the related transmission lines through a previous lease between Twin Falls and Wabush Mines, Twin Falls consented to and confirmed the aforementioned lease between Wabush Mines and Hydro, which will expire on September 30, 2015, unless it is terminated earlier in accordance with the terms of the lease or the written agreement of Wabush Mines and Hydro.

The results of an Environmental Site Assessment (ESA) conducted in 2002 at the Twin Falls Generating Station indicated higher than acceptable concentrations of contaminants in the soil and waters adjacent to the powerhouse. Further testing was conducted to determine the extent of contamination. The recommendations arising from this testing indicate that remediation is not required, but that further monitoring be carried out. Monitoring was performed in 2010 and again in 2013, with no remediation required. The 2013 sampling indicated that concentrations of total petroleum hydrocarbons (TPH) and PCBs in sediment and PCBs in fish have generally remained stable, or decreased, since 2010. Further sampling is recommended to be conducted in 2018 and it is recommended that fishing remain closed in Bonnell Creek.

The Twin Falls' Board of Directors is currently examining the extent, if any, of Twin Falls' responsibility for any environmental liabilities, or other obligations subsequent to 2014. The outcome is not determinable at this time.