

**TWIN FALLS POWER CORPORATION LIMITED**  
**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**September 30, 2014**  
**Unaudited**



**DIRECTORS**

CHRIS KIELEY  
President

WAYNE D. CHAMBERLAIN  
General Counsel and Corporate Secretary  
Nalcor Energy

ORAL BURRY  
Manager, Long Term Planning and Asset Management  
Churchill Falls (Labrador) Corporation Limited

DERRICK F. STURGE  
Vice-President, Finance and Chief Financial Officer

GERARD V. McDONALD  
Vice-President, Human Resources and  
Organizational Effectiveness  
Nalcor Energy

MAURICE McCLURE  
General Manager  
Financial Planning and Cost Management  
Iron Ore Company of Canada

TONY BEITING  
Mine Controller  
Bloom Lake - ECIO

VAN ALEXOPOULOS  
Director  
Commercial Services  
Iron Ore Company of Canada

TOLAVER RAPP  
Director  
Global Energy Procurement  
Cliffs Natural Resources

**OFFICERS**

CHRIS KIELEY  
President

DERRICK F. STURGE  
Vice-President, Finance and Chief  
Financial Officer

ROBERT HULL  
General Manager, Finance

SCOTT PELLEY  
Corporate Treasurer

PETER A. HICKMAN  
Corporate Secretary

ORAL BURRY  
General Manager

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

<i>As at (thousands of Canadian dollars)</i>	Notes	<b>September 30 2014</b>	December 31 2013
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents		926	1,570
Short-term investments		4,882	2,977
Trade and other receivables		3,883	4,533
Prepayments		31	-
Total current assets		<b>9,722</b>	9,080
Non-current assets			
Property, plant and equipment	3	398	430
Total assets		<b>10,120</b>	9,510
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities			
Trade and other payables		1,882	2,664
Environmental liabilities		1,688	1,688
Total current liabilities		<b>3,570</b>	4,352
Non-current liabilities			
Deferred income taxes		100	111
Total liabilities		<b>3,670</b>	4,463
Shareholders' equity			
Issued capital	4	2,513	2,513
Retained earnings		3,937	2,534
Total shareholders' equity		<b>6,450</b>	5,047
Total liabilities and shareholders' equity		<b>10,120</b>	9,510

*See accompanying notes*

**TWIN FALLS POWER CORPORATION LIMITED**  
**STATEMENTS OF PROFIT AND COMPREHENSIVE INCOME**  
**Unaudited**

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Notes	Three Months Ended		Nine Months Ended	
		<b>2014</b>	2013	<b>2014</b>	2013
Power sales		<b>1,225</b>	1,217	<b>3,678</b>	3,650
Revenue		<b>1,225</b>	1,217	<b>3,678</b>	3,650
Operating costs	5	<b>(638)</b>	(562)	<b>(1,811)</b>	(1,649)
Depreciation	3	<b>(11)</b>	(11)	<b>(32)</b>	(32)
Finance income	6	<b>17</b>	10	<b>44</b>	30
Profit before tax		<b>593</b>	654	<b>1,879</b>	1,999
Current income tax expense		<b>(154)</b>	(175)	<b>(488)</b>	(534)
Deferred income tax recovery		<b>5</b>	3	<b>12</b>	8
Income tax expense		<b>(149)</b>	(172)	<b>(476)</b>	(526)
Profit and comprehensive income for the period		<b>444</b>	482	<b>1,403</b>	1,473

*See accompanying notes*

**TWIN FALLS POWER CORPORATION LIMITED**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**Unaudited**

<i>(thousands of Canadian dollars)</i>	Issued Capital	Retained Earnings	Total
<b>Balance at January 1, 2014</b>	<b>2,513</b>	<b>2,534</b>	<b>5,047</b>
<b>Profit and comprehensive income for the period</b>	<b>-</b>	<b>1,403</b>	<b>1,403</b>
<b>Balance at September 30, 2014</b>	<b>2,513</b>	<b>3,937</b>	<b>6,450</b>
Balance at January 1, 2013	2,513	635	3,148
Profit and comprehensive income for the period	-	1,473	1,473
Balance at September 30, 2013	2,513	2,108	4,621

*See accompanying notes*

**TWIN FALLS POWER CORPORATION LIMITED**  
**STATEMENTS OF CASH FLOWS**  
**Unaudited**

	Notes	Three Months Ended		Nine Months Ended	
		2014	2013	2014	2013
<i>For the period ended September 30 (thousands of Canadian dollars)</i>					
Cash provided by (used in)					
Operating activities					
Profit for the period		444	482	1,403	1,473
Adjusted for items not involving a cash flow:					
Depreciation and amortization		11	11	32	32
Deferred income tax recovery		(4)	(3)	(11)	(8)
		451	490	1,424	1,497
Changes in non-cash working capital balances	7	(86)	(1,105)	(163)	(1,129)
Net cash from operating activities		365	(615)	1,261	368
Investing activities					
Increase in short term investments		(479)	(7)	(1,905)	(822)
Net cash used in investing activities		(479)	(7)	(1,905)	(822)
Net decrease (increase) in cash		(114)	(622)	(644)	(454)
Cash and cash equivalents at beginning of period		1,040	1,012	1,570	844
Cash and cash equivalents at end of period		926	390	926	390

Supplementary cash flow information (Note 7)

*See accompanying notes*

**TWIN FALLS POWER CORPORATION LIMITED**  
**NOTES TO UNAUDITED FINANCIAL STATEMENTS**

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**1. NATURE AND DESCRIPTION OF THE COMPANY**

Twin Falls Power Corporation Limited (Twin Falls) is incorporated under the laws of Canada and has developed a 225 megawatt hydroelectric generating plant on the Unknown River in Labrador. The plant has been inoperative since 1974 (Note 8).

These condensed interim financial statements have been prepared by Management in accordance with International Financial Reporting Standards (IFRS) applicable to a going concern, which assume Twin Falls will be able to realize its assets and discharge its liabilities in the normal course of operation for the foreseeable future. There is material uncertainty and significant doubt surrounding Twin Falls' continued operation beyond December 31, 2014, as 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) expires (Note 8(c)). These condensed interim financial statements do not include adjustments to the amounts 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, 2013.

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 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.



**TWIN FALLS POWER CORPORATION LIMITED**  
**NOTES TO UNAUDITED FINANCIAL STATEMENTS**

**3. PROPERTY, PLANT AND EQUIPMENT**

<i>(thousands of Canadian dollars)</i>	Hydroelectric Generation Plant	Transmission and Terminals	Service Facilities and Other	Total
<b>Cost</b>				
Balance at January 1, 2013	60,444	6,122	431	66,997
Balance at December 31, 2013	60,444	6,122	431	66,997
<b>Balance at September 30, 2014</b>	<b>60,444</b>	<b>6,122</b>	<b>431</b>	<b>66,997</b>
<b>Depreciation and impairment</b>				
Balance at January 1, 2013	60,444	5,747	334	66,525
Depreciation expense	-	34	8	42
Balance at December 31, 2013	60,444	5,781	342	66,567
<b>Depreciation expense</b>	<b>-</b>	<b>26</b>	<b>6</b>	<b>32</b>
<b>Balance at September 30, 2014</b>	<b>60,444</b>	<b>5,807</b>	<b>348</b>	<b>66,599</b>
<b>Carrying value</b>				
Balance at January 1, 2013	-	375	97	472
Balance at December 31, 2013	-	341	89	430
<b>Balance at September 30, 2014</b>	<b>-</b>	<b>315</b>	<b>83</b>	<b>398</b>

**4. SHAREHOLDERS' EQUITY**

**4.1 Issued Capital**

The issued Class A shares are owned by Churchill Falls and the issued Class B shares are owned by Twin Falls' present long-term customers. 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>September 30 2014</b>	December 31 2013
<b>Share capital</b>		
Authorized		
Class A shares without nominal or par value - 500,000		
Class B shares without nominal or par value - 1,000,000		
Issued, fully paid and outstanding		
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

**TWIN FALLS POWER CORPORATION LIMITED**  
**NOTES TO UNAUDITED FINANCIAL STATEMENTS**

**5. OPERATING COSTS**

<i>For the period ended (thousands of Canadian dollars)</i>	Three Months Ended		Nine Months Ended	
	<b>September 30</b> <b>2014</b>	September 30 2013	<b>September 30</b> <b>2014</b>	September 30 2013
Power purchased	<b>244</b>	247	<b>736</b>	744
Rental and royalty expense	<b>184</b>	184	<b>551</b>	551
Capacity expansion	<b>72</b>	62	<b>214</b>	186
Other operating costs	<b>138</b>	69	<b>310</b>	168
	<b>638</b>	562	<b>1,811</b>	1,649

**6. FINANCE INCOME**

<i>For the period ended (thousands of Canadian dollars)</i>	Three Months Ended		Nine Months Ended	
	<b>September 30</b> <b>2014</b>	September 30 2013	<b>September 30</b> <b>2014</b>	September 30 2013
Interest on short-term investments	<b>15</b>	12	<b>37</b>	24
Other interest income/(expense)	<b>2</b>	(2)	<b>7</b>	6
	<b>17</b>	10	<b>44</b>	30

**7. SUPPLEMENTARY CASH FLOW INFORMATION**

<i>For the period ended (thousands of Canadian dollars)</i>	Three Months Ended		Nine Months Ended	
	<b>September 30</b> <b>2014</b>	September 30 2013	<b>September 30</b> <b>2014</b>	September 30 2013
Trade and other receivables	<b>(720)</b>	(596)	<b>650</b>	171
Trade and other payables	<b>603</b>	(540)	<b>(782)</b>	(1,269)
Prepayments	<b>31</b>	31	<b>(31)</b>	(31)
Changes in non-cash working capital balances	<b>(86)</b>	(1,105)	<b>(163)</b>	(1,129)
Income taxes paid	<b>105</b>	159	<b>357</b>	505
Interest received	<b>25</b>	20	<b>40</b>	20
Interest paid	-	-	<b>1</b>	-

**8. RELATED PARTY TRANSACTIONS**

Twin Falls enters into various transactions with its Shareholders. 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 Party	Relationship
Churchill Falls	33.3% Shareholder of Twin Falls
Iron Ore Company of Canada (IOCC)	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
Nalcor Energy (Nalcor)	100% Shareholder of NL Hydro, which owns 65.8% of Churchill Falls

**TWIN FALLS POWER CORPORATION LIMITED**  
**NOTES TO UNAUDITED FINANCIAL STATEMENTS**

**8. RELATED PARTY TRANSACTIONS (cont'd.)**

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

	Churchill Falls	Iron Ore Company of Canada	Wabush Mines	Nalcor	Total
<i>(thousands of Canadian dollars)</i>					
<b>Nine Months Ended September 30, 2014</b>					
Power sales	-	2,806	872	-	3,678
Operating costs	(3,750)	2,070	122	105	(1,453)
Trade and other receivables	-	2,838	865	-	3,703
Trade and other payables	1,454	-	-	-	1,454
<i>(thousands of Canadian dollars)</i>					
Nine Months Ended September 30, 2013					
Power sales	-	2,778	872	-	3,650
Operating costs	(2,659)	973	148	-	(1,538)
Trade and other receivables	-	2,436	345	-	2,781
Trade and other payables	565	-	-	-	565

During 2014, Twin Falls paid \$1,558,000 (2013 - \$1,538,000) to Churchill Falls to cover operating expenses associated with Twin Falls that were incurred by Churchill Falls, rental and royalties, and management fees.

During 2014, Twin Falls recorded sales of power to IOCC and Wabush Mines in the amounts of \$2,806,000 (2013 - \$2,778,000) and \$872,000 (2013 - \$872,000), respectively. As at September 30, 2014 power sales of \$328,000 (2013 - \$1,025,000) to IOCC and \$329,000 (2013 - \$Nil) to Wabush Mines are recorded in trade and other receivables.

Twin Falls incurred \$2,192,000 (2013 - \$1,121,000) in maintenance costs. This work was performed by Churchill Falls and these costs were recovered from IOCC and Wabush Mines in the amounts of \$2,070,000 (2013 - \$973,000) and \$122,000 (2013 - \$148,000), respectively. As at September 30, 2014 maintenance costs of \$1,254,000 (2013 - \$518,000) to IOCC and \$105,000 (2013 - \$38,000) to Wabush Mines are recorded in trade and other receivables.

There are no dividends outstanding as at September 30, 2014 (2013 - \$Nil).

Trade and other receivables includes \$1,688,000 (2013 - \$1,200,000) associated with recovery of environmental liabilities related to PCBs. These costs are recoverable from IOC and Wabush Mines in the amounts of \$1,256,000 (2013 - \$893,000) and \$432,000 (2013 - \$307,000) respectively.

During 2014, Twin Falls paid \$105,000 (2013 - \$Nil) to Nalcor to cover operating expenses related to transition costs.

**TWIN FALLS POWER CORPORATION LIMITED**  
**NOTES TO UNAUDITED FINANCIAL STATEMENTS**

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**9. COMMITMENTS AND CONTINGENCIES**

Certain rights under the Sub-lease were suspended by Churchill Falls with effect from September 30, 1974 with the result that Churchill Falls is diverting the flow of water from the Twin Falls plant and using the facilities of Twin Falls as required. In consideration for this suspension of rights, Churchill Falls is required to deliver to Twin Falls, during the unexpired term of the Sub-lease, horsepower equivalent to the installed horsepower of the Twin Falls plant. Twin Falls is obliged to purchase this power for an amount equal to the average annual cost of operating the Twin Falls plant for the five-year period ended March 31, 1974. In addition, Twin Falls is required to pay annually to Churchill Falls a rental amounting to \$305,000 and \$1.40 per installed horsepower. Twin Falls also pays Churchill Falls an annual royalty of \$0.50 per horsepower year generated, as defined, all calculated as though the power delivered by Churchill Falls to Twin Falls had been generated in the Twin Falls plant.

Under the terms of the Sub-lease, Churchill Falls is required to maintain the Twin Falls plant and equipment. The sub-lease expires December 31, 2014.

The results of an Environmental Site Assessment (ESA) conducted 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 polychlorinated biphenyls (PCB) 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 several issues, including:

- (i) Twin Falls' continued operation beyond the expiration of the Sub-lease in 2014;
- (ii) The extent, if any, of Twin Falls' responsibility for any environmental liabilities, or other obligations upon the expiration of the Sub-lease in 2014; and

The outcome of these discussions is not determinable at this time.