

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

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

<i>As at (thousands of Canadian dollars)</i>	Notes	September 30 2015	December 31 2014
ASSETS			
Current assets			
Cash and cash equivalents		3,569	1,369
Short-term investments		2,026	5,247
Trade and other receivables	3	582	3,709
Prepayments		17	-
Total current assets		6,194	10,325
Non-current assets			
Other receivables	3	471	-
Property, plant and equipment	4	356	388
Total assets		7,021	10,713
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade and other payables		29	3,264
Environmental liabilities		150	621
Total current liabilities		179	3,885
Non-current liabilities			
Environmental liabilities		471	-
Deferred income taxes		92	100
Total liabilities		742	3,985
Shareholders' equity			
Share capital	5	2,513	2,513
Retained earnings		3,766	4,215
Total shareholders' equity		6,279	6,728
Total liabilities and shareholders' equity		7,021	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 September 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Nine months ended	
		2015	2014	2015	2014
Power sales		-	1,225	-	3,678
Revenue		-	1,225	-	3,678
Operating costs	6	104	638	617	1,811
Depreciation	4	11	11	32	32
Net finance (income) expense	7	(5)	(17)	(37)	(44)
(Loss) profit before income taxes		(110)	593	(612)	1,879
Current income tax (recovery) expense		(37)	154	(155)	488
Deferred income tax (recovery) expense		(2)	(5)	(8)	(12)
Income tax (recovery) expense		(39)	149	(163)	476
(Loss) profit for the period		(71)	444	(449)	1,403

See accompanying notes

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

<i>(thousands of Canadian dollars)</i>	Share Capital	Retained Earnings	Total
Balance at January 1, 2015	2,513	4,215	6,728
Loss for the period	-	(449)	(449)
Balance at September 30, 2015	2,513	3,766	6,279
Balance at January 1, 2014	2,513	2,534	5,047
Profit for the period	-	1,403	1,403
Balance at September 30, 2014	2,513	3,937	6,450

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

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Nine months ended	
		2015	2014	2015	2014
Cash provided from (used in)					
Operating activities					
(Loss) profit for the period		(71)	444	(449)	1,403
Adjusted for items not involving a cash flow:					
Depreciation	4	11	11	32	32
Deferred income tax recovery		(2)	(5)	(8)	(12)
		(62)	450	(425)	1,423
Changes in non-cash working capital balances	8	48	(85)	(125)	(162)
Net cash (used in) provided from operating activities		(14)	365	(550)	1,261
Investing activity					
Increase in long-term receivables	3	-	-	(471)	-
Decrease (increase) in short-term investments		994	(479)	3,221	(1,905)
Net cash provided from (used in) investing activities		994	(479)	2,750	(1,905)
Net increase (decrease) in cash and cash equivalents		980	(114)	2,200	(644)
Cash and cash equivalents, beginning of period		2,589	1,040	1,369	1,570
Cash and cash equivalents, end of period		3,569	926	3,569	926

Supplementary cash flow information (Note 8)

See accompanying notes

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

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. The plant is located on land that was sub-leased by Twin Falls from Churchill Falls (Labrador) Corporation Limited (Churchill Falls). That sub-lease expired on December 31, 2014 and ownership of the plant now resides with Churchill Falls.

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 for the right to develop hydroelectric power on the Unknown River (the Sub-lease) expired. Twin Falls 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.

As at September 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

	September 30	December 31
	2015	2014
<i>(thousands of Canadian dollars)</i>		
Receivables due from related parties	1,364	3,709
Other receivables	159	-
Allowance for doubtful accounts	(470)	-
	1,053	3,709
Less: current portion	(582)	(3,709)
	471	-

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
Cost			
Balance at January 1, 2014	6,122	431	6,553
Balance at December 31, 2014	6,122	431	6,553
Balance at September 30, 2015	6,122	431	6,553
Depreciation			
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
Depreciation expense	26	6	32
Balance at September 30, 2015	5,841	356	6,197
Carrying value			
Balance at January 1, 2014	341	89	430
Balance at December 31, 2014	307	81	388
Balance at September 30, 2015	281	75	356

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>	September 30 2015	December 31 2014
Share capital		
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	838	838
Class B shares – 500,000	1,675	1,675
	2,513	2,513

6. OPERATING COSTS

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2015	2014	2015	2014
Power purchased	-	244	-	736
Rental and royalty expense	-	184	-	551
Maintenance and environmental costs	-	-	52	-
Capacity expansion	-	72	-	214
Bad debt expense	-	-	425	-
Other operating costs	104	138	140	310
	104	638	617	1,811

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

7. NET FINANCE (INCOME) EXPENSE

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2015	2014	2015	2014
Interest on short-term investments	(10)	(15)	(40)	(37)
Other interest expense (income)	5	(2)	3	(7)
Net finance (income) expense	(5)	(17)	(37)	(44)

8. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2015	2014	2015	2014
Trade and other receivables	56	(719)	3,127	651
Trade and other payables	9	603	(3,235)	(782)
Prepayments	(17)	31	(17)	(31)
Changes in non-cash working capital balances	48	(85)	(125)	(162)
Income taxes paid	-	105	169	357
Interest received	27	25	60	40
Interest paid	7	-	8	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 Inc. (Wabush Mines)	12.5% shareholder of Twin Falls
Wabush Iron Co. Limited (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>						
Nine Months Ended September 30, 2015						
Operating costs	65	10	-	-	47	122
Trade and other receivables	-	-	425	939	-	1,364
Trade and other payables	8	2	-	-	8	18
<i>(thousands of Canadian dollars)</i>						
Nine Months Ended September 30, 2014						
Power sales	-	-	2,806	872	-	3,678
Operating costs	3,765	12	(2,070)	(122)	78	1,663
Trade and other receivables	-	-	2,838	866	-	3,704
Trade and other payables	1,454	-	-	-	-	1,454

- (a) During 2015, Twin Falls paid \$nil (2014 - \$1,558,000) 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 - \$2,806,000) and \$nil (2014 - \$872,000), respectively. As at September 30, 2015, power sales of \$nil (2014 - \$328,000) to IOC and \$110,000 (2014 - \$329,000) to Wabush Mines are recorded in trade and other receivables.
- (c) Twin Falls incurred \$52,000 (2014 - \$2,192,000) 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 - \$2,070,000) and \$nil (2014 - \$122,000), respectively. As at September 30, 2015, maintenance costs of (\$37,000) (2014 - \$1,254,000) to IOC and \$670,000 (2014 - \$105,000) 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 polychlorinated biphenyls (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 \$47,000 (2014 - \$78,000), \$10,000 (2014 - \$12,000) and \$13,000 (2014 - \$15,000) in operating expenses related to transition costs provided by Nalcor, Hydro and Churchill Falls 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 September 30, 2015, Twin has recorded accounts receivable from Wabush Mines totalling \$939,000 (2014 - \$866,000). 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. The original expiration date of this sub-lease was June 30, 2015 but it has been extended to December 31, 2015.

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 was due to expire on September 30, 2015, unless terminated earlier in accordance with the terms of the lease or the written agreement of Wabush Mines and Hydro. The expiry date of the lease has been extended to November 6, 2015.

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.