TWIN FALLS POWER CORPORATION LIMITED
FINANCIAL STATEMENTS
December 31, 2016

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 Twin Falls Power Corporation Limited

We have audited the accompanying financial statements of Twin Falls Power Corporation Limited, which comprise the statement of financial position as at December 31, 2016 and the statements of profit (loss) and comprehensive income (loss), changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Twin Falls Power Corporation Limited as at December 31, 2016 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 1 to the financial statements which describes certain matters which indicate the existence of a material uncertainty that may cast significant doubt about Twin Falls Power Corporation Limited's ability to continue as a going concern. Our opinion is not qualified in respect of this manner.

Deloitte LLP

Chartered Professional Accountants
March 1, 2017

TWIN FALLS POWER CORPORATION LIMITED
STATEMENT OF FINANCIAL POSITION

As at December 31 (thousands of Canadian dollars)	Notes	**2016**	2015
ASSETS			
Current assets			
Cash and cash equivalents	5	**5,572**	5,558
Trade and other receivables	6	**41**	329
Prepayments		**11**	11
Total current assets		**5,624**	5,898
Non-current assets			
Property, plant and equipment	7	**58**	346
Total assets		**5,682**	6,244
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	8	**39**	231
Environmental liabilities	9	**23**	399
Total current liabilities		**62**	630
Non-current liabilities			
Deferred income taxes	18	**12**	53
Total liabilities		**74**	683
Shareholders' equity			
Share capital	10	**2,513**	2,513
Retained earnings		**3,095**	3,048
Total equity		**5,608**	5,561
Total liabilities and equity		**5,682**	6,244

Commitments and contingencies (Note 16)

See accompanying notes

On behalf of the Board:

Director

Director

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

For the year ended December 31 (thousands of Canadian dollars)	Notes	**2016**	2015
Operating costs	11	**(190)**	1,498
Depreciation	7	**36**	42
Net finance (income) expense	12	**(39)**	(47)
Other (income) expense	13	**252**	-
Loss before income taxes		**(59)**	(1,493)
Current income tax recovery	18	**(65)**	(279)
Deferred income tax recovery	18	**(41)**	(47)
Income tax recovery		**(106)**	(326)
Profit (loss) and comprehensive income (loss) for the year		**47**	(1,167)

See accompanying notes

TWIN FALLS POWER CORPORATION LIMITED
STATEMENT OF CHANGES IN EQUITY

(thousands of Canadian dollars)	**Share Capital**	**Retained Earnings**	**Total**
Balance at January 1, 2016	**2,513**	**3,048**	**5,561**
Profit for the year	**-**	**47**	**47**
Balance at December 31, 2016	**2,513**	**3,095**	**5,608**
Balance at January 1, 2015	2,513	4,215	6,728
Loss for the year	-	(1,167)	(1,167)
Balance at December 31, 2015	2,513	3,048	5,561

TWIN FALLS POWER CORPORATION LIMITED
STATEMENT OF CASH FLOWS

For the year ended December 31 (thousands of Canadian dollars)	Notes	**2016**	2015
Cash provided from (used in)			
Operating activities			
Profit (loss) for the year		**47**	(1,167)
Adjusted for items not involving a cash flow:			
Depreciation	7	**36**	42
Revisions to environmental liabilities	9, 11	**(303)**	(122)
Loss on disposal of property, plant, and equipment	13	**252**	-
Deferred income tax recovery	18	**(41)**	(47)
		(9)	(1,294)
Changes in non-cash working capital balances	19	**23**	236
Net cash provided from (used in) operating activities		**14**	(1,058)
Investing activity			
Decrease in short-term investments		**-**	5,247
Net cash provided from investing activity		**-**	5,247
Net increase in cash and cash equivalents		**14**	4,189
Cash and cash equivalents, beginning of year		**5,558**	1,369
Cash and cash equivalents, end of year		**5,572**	5,558
Interest received		**44**	75
Interest paid		**1**	8
Income taxes received		**304**	-
Income taxes paid		**-**	169

See accompanying notes

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. 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. 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. Twin Falls is 33.3% owned by Churchill Falls, of which Newfoundland and Labrador Hydro (Hydro) own 65.8% and whose parent company is Nalcor Energy (Nalcor). The remaining portion is owned 49.6% by Iron Ore Company of Canada (IOC), 12.5% by Wabush Resources Inc. (Wabush Mines) and 4.6% by Wabush Iron Co. Limited (Wabush Mines). Twin Falls' head office is located at 500 Columbus Drive, St. John's, Newfoundland and Labrador, A1B 3T5, Canada.

These annual audited financial statements have been prepared by Management on a going concern basis, 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.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance and Basis of Measurement

These annual audited financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Twin Falls has adopted accounting policies which are based on the IFRS applicable as at December 31, 2016, and includes individual IFRS, International Accounting Standards (IAS), and interpretations made by the IFRS Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC).

These annual audited financial statements have been prepared on a historical cost basis. The annual audited financial statements are presented in Canadian dollars and all values rounded to the nearest thousands, except when otherwise noted. These annual audited financial statements have been approved by the Board of Directors of Twin Falls on February 20, 2017.

2.2 Cash and Cash Equivalents and Short-Term Investments

Cash and cash equivalents consist of amounts on deposit with a Schedule 1 Canadian Chartered bank, 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. There were no cash equivalents or short-term investments at December 31, 2016 (effective interest rate at December 31, 2015 – 0.63% per annum). Cash and cash equivalents are measured at cost which approximates fair value while short-term investments are measured at fair value.

2.3 Trade and Other Receivables

Trade and other receivables are classified as loans and receivables and are measured at amortized cost using the effective interest method.

2.4 Property, Plant and Equipment

Items of property, plant and equipment are recognized using the cost model and thus are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes materials, labour, contracted services, professional fees. 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, Twin Falls recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the profit or loss as incurred. Property, plant and equipment is not revalued for financial reporting purposes. Depreciation of these assets commences when the assets are ready for their intended use.

Depreciation is calculated on a straight-line basis over the estimated useful life of 33 years.

The assets' residual values, useful lives and method of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate. The carrying value of property, plant and equipment is reviewed for impairment whenever events indicate that the carrying amounts of those assets may not be recoverable.

2.5 Impairment of Non-Financial Assets

At the end of each reporting period, Twin Falls reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Where it is not possible to estimate the recoverable amount of an individual asset, Twin Falls estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified. The recoverable amount is the higher of fair value less costs to sell and value in use. 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. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from non-financial assets.

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. An impairment loss is recognized immediately in profit or loss.

2.6 Provisions

A provision is a liability of uncertain timing or amount. A provision is recognized if Twin Falls has a present legal obligation or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. The provision is measured at the present value of the best estimate of the expenditures expected to be required to settle the obligation using a discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. Provisions are re-measured at each Statement of Financial Position date using the current discount rate.

2.7 Decommissioning, Restoration and Environmental Liabilities

Legal and constructive obligations associated with the retirement of property, plant and equipment and other environmental liabilities 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 current pre-tax 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) expense. The carrying amount of decommissioning, restoration and environmental liabilities is reviewed annually with changes in the estimates of timing or amount of cash flows added to or deducted from the cost of the related asset or expensed in the Statement of Profit (Loss) and Comprehensive Income (Loss) if the liability is short-term in nature.

Twin Falls' assets are located on land from a related party, whose rights to the land are subject to renewal into the foreseeable future. The timing of, and responsibility for, the removal of these assets has not been determined. If it is determined that the assets are to be removed by Twin Falls and it is possible to estimate the fair value of the cost of removing them, a decommissioning liability will be recognized at that time.

2.8 Income Taxes

Twin Falls follows the deferral method of accounting for income taxes. Under the deferral method, deferred income tax assets and liabilities are determined based on the differences between the financial reporting and tax basis of assets and liabilities, as well as the benefit of losses carried forward to future years that are probable of being realized to reduce income taxes. Assets and liabilities are measured using enacted and substantively enacted tax rates and laws that are expected to be in effect in the periods in which the deferred tax assets or liabilities are expected to be realized or settled. The effect of a change in substantively enacted income tax rates on deferred income tax assets and liabilities is recognized in income in the period that the change occurs.

2.9 Net Finance (Income) Expense

For all financial instruments measured at amortized cost and interest bearing financial assets classified as available-for-sale, interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

2.10 Foreign Currencies

Transactions in currencies other than Twin Falls' functional currency (foreign currencies) are recognized using the exchange rate in effect at the date of 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 income as other (income) expense.

2.11 Financial Instruments

Financial assets and financial liabilities are recognized in the Statement of Financial Position when Twin Falls becomes a party to the contractual provisions of the instrument and are initially measured at fair value. Subsequent measurement is based on classification. Financial instruments are classified into the following specified categories: financial assets at fair value through profit or loss (at FVTPL), available for sale (AFS) financial assets, loans and receivables, held-to-maturity investments, financial liabilities designated 'at FVTPL', financial instruments used for hedging and other financial liabilities. The classification depends on the nature and purpose of the financial instruments and is determined at the time of initial recognition.

Classification of Financial Instruments

Twin Falls has classified each of its financial instruments into the following categories: loans and receivables, AFS financial assets and other financial liabilities.

Financial instrument	Category
Cash and cash equivalents	Loans and receivables
Trade and other receivables	Loans and receivables
Trade and other payables	Other financial liabilities

(i) Effective Interest Method

The effective interest method is a method of calculating the amortized cost of a financial instrument and allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income or expense is recognized on an effective interest basis for financial instruments other than those financial assets and liabilities classified as at FVTPL.

Financial Assets

(ii) Financial Assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that Twin Falls manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with Twin Falls' documented risk management or investment strategy, and information about the grouping is provided internally on that basis;
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized in other (income) expense. The net gain or loss incorporates any dividends or interest earned.

(iii) Loans and Receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(iv) Held-to-Maturity Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that Twin Falls has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment, with interest revenue recognized on an effective yield basis.

(v) AFS Financial Assets

AFS financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the previous categories. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the fair value reserve with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified to profit or loss.

Financial Liabilities and Equity Instruments

(vi) Classification as Debt or Equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and equity instrument.

(vii) Financial Liabilities at FVTPL

A financial liability may be classified as at FVTPL if the contracted liability contains one or more embedded derivatives, and if the embedded derivative significantly modified the cash flows or if the embedded derivative is not closely related to the host liability. Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising from re-measurement recognized in profit or loss.

(viii) Other Financial Liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

(ix) Derivative Instruments and Financial Instruments Used for Hedging

A derivative is a financial instrument or other contract whose value changes in response to a change in its underlying, requires little or no net investment and is settled at a future date. Derivatives are initially measured at fair value at the date the derivative contracts are entered into and are subsequently measured at their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging relationship.

2.12 Impairment of Financial Assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- the borrower, more probable than not, entering into bankruptcy or financial re-organization.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include Twin Falls' past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

2.14 Derecognition of Financial Instruments

Twin Falls derecognizes a financial asset only 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 entity. If Twin Falls neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, its retained interest in the asset and an associated liability for amounts it may have to pay is recognized. If Twin Falls retains substantially all the risks and rewards of ownership of a transferred financial asset, it continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received. Twin Falls derecognizes financial liabilities when, and only when, its obligations are discharged, cancelled or they expire.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the annual audited 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 future periods.

3.1 Use of Estimates

(i) Property, Plant and Equipment
Amounts recorded for depreciation are based on the useful lives of Twin Falls' assets. These useful lives of property, plant and equipment 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) Environmental Liabilities
The fair value of the future expenditures required to settle legal obligations associated with environmental liabilities is recognized to the extent that they are reasonably estimable. Environmental liabilities are recorded at fair value.

(iii) Evaluation of Going Concern
The preparation of the annual audited financial statements requires Management to make judgments regarding the going concern of Twin Falls as previously discussed in Note 1.

4. FUTURE CHANGES IN ACCOUNTING POLICIES

Amendments to IFRS 11 – Accounting for Acquisition of Interests in Joint Operations, IAS 1 – Disclosure Initiatives and IAS 16 and 38 – Clarification of Acceptable Methods of Depreciation and Amortization that became effective for annual periods beginning on or after January 1, 2016 did not have a material impact on Twin Falls' annual audited financial statements.

Twin Falls has not applied the following new and revised IFRS that have been issued but are not yet effective:

Amendments to IAS 7 - Disclosure Initiative[1]
Amendments to IAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses[1]
IFRS 9 - Financial Instruments[2]

[1]Effective for annual periods beginning on or after January 1, 2017, with earlier application permitted.
[2]Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

4.1 Amendments to IAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific format to disclose financing activities; however, an entity may fulfil the disclosure objective by providing a reconciliation between the opening and closing balances in the Statement of Financial Position for liabilities arising from financing activities.

The amendments apply prospectively. Entities are not required to present comparative information for earlier periods.

Management does not anticipate that the application of these amendments to IAS 7 will have a material impact on Twin Falls' annual audited financial statement disclosures.

4.2 Amendments to IAS 12 Recognizing of Deferred Tax Assets for Unrealized Losses

The amendments clarify the following:

1. Decreases below cost in the carrying amount of a fixed-rate debt instrument measured at fair value for which the tax base remains at cost give rise to a deductible temporary difference, irrespective of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. Or whether it is probably that the issuer will pay all the contractual cash flows;

2. When an entity assesses whether taxable profits will be available against which it can utilize a deductible temporary difference, and the tax law restricts the utilization of losses to deduction against income of a specific type (i.e. capital losses can only be set off against capital gains), an entity assesses a deductible temporary difference in combination with other deductible temporary differences of that type, but separately from other types of deductible temporary differences;

3. The estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probably that the entity will achieve this; and

4. In evaluating whether sufficient future taxable profits are available, an entity should compare the deductible temporary differences with future taxable profits excluding tax deductions resulting from the reversal of those deductible temporary differences.

The amendments apply retrospectively. Management does not anticipate that the application of these amendments to IAS 12 will have a material impact on Twin Falls' annual audited financial statements.

4.3 IFRS 9 Financial Instruments

In July 2014, the IASB finalized the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which contains the requirements for a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting. IFRS 9 (as revised in 2014) will supersede IAS 39 Financial Instruments: Recognition and Measurement upon its effective date.

Phase 1: Classification and measurement of financial assets and financial liabilities

With respect to the classification and measurement, the number of categories of financial assets under IFRS 9 has been reduced; all recognized financial assets that are currently within the scope of IAS 39 will be subsequently measurement at either amortized cost or fair value under IFRS 9.

IFRS 9 also contains requirements for the classification and measurement of financial liabilities and derecognition requirements. One major change from IAS 39 relates to the presentation of changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of that liability. Under IFRS 9 such changes are presented in other comprehensive income, unless the presentation of the effect of the change in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

Phase 2: Impairment of financial assets

The impairment model under IFRS 9 reflects expected credit losses, as opposed to incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

Phase 3: Hedge accounting

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an ‘economic relationship’. Retrospective assessment of hedge effectiveness is no longer required. Far more disclosure requirements about an entity’s risk management activities have been introduced.

Transitional provisions

IFRS 9 (as revised in 2014) is effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. Management has elected to adopt the standard as of the effective date, and although the classifications of existing financial instruments and related disclosures will change, Management does not anticipate material adjustments to Twin Falls’ annual audited financial statements upon transition.

5. CASH AND CASH EQUIVALENTS

As at December 31 (thousands of Canadian dollars)	**2016**	2015
Cash	**5,572**	3,529
Cash equivalents	**-**	2,029
	5,572	5,558

6. TRADE AND OTHER RECEIVABLES

As at December 31 (thousands of Canadian dollars)	**2016**	2015
Due from related parties	**780**	780
Other receivables	**41**	329
Allowance for doubtful accounts	**(780)**	(780)
	41	329

Other receivables are comprised of input tax credits and income tax recovery.

As at December 31 (thousands of Canadian dollars)	**2016**	2015
0-60 days	**41**	329
	41	329

7. PROPERTY, PLANT AND EQUIPMENT

(thousands of Canadian dollars)	Transmission and Terminals	Service Facilities and Other	Total
Cost			
Balance at January 1, 2015	6,122	431	6,553
Balance at December 31, 2015	6,122	431	6,553
Disposals	**(6,081)**	**(306)**	**(6,387)**
Balance at December 31, 2016	**41**	**125**	**166**
Depreciation			
Balance at January 1, 2015	5,815	350	6,165
Depreciation	34	8	42
Balance at December 31, 2015	5,849	358	6,207
Depreciation	**29**	**7**	**36**
Disposals	**(5,854)**	**(281)**	**(6,135)**
Balance at December 31, 2016	**24**	**84**	**108**
Carrying value			
Balance at January 1, 2015	307	81	388
Balance at December 31, 2015	273	73	346
Balance at December 31, 2016	**17**	**41**	**58**

8. TRADE AND OTHER PAYABLES

As at December 31 (thousands of Canadian dollars)	**2016**	2015
Due to related parties	**26**	86
Other payables	**13**	145
	39	231

9. ENVIRONMENTAL LIABILITIES

During 2013, Twin Falls recognized liabilities associated with the disposal of polychlorinated biphenyls (PCBs) and the remediation of water contamination. The reconciliation of the beginning and ending carrying amounts of environmental liabilities for the years ended December 31, 2016 and December 31, 2015 is as follows:

As at December 31 (thousands of Canadian dollars)	**2016**	2015
Environmental liabilities, beginning of year	**399**	621
Revisions	**(303)**	(122)
Liabilities settled	**(73)**	(100)
Environmental liabilities, end of year	**23**	399

In 2016, Twin Falls incurred revisions of $303,000 to environmental liabilities (2015 - $122,000) which have been recorded in operating costs in profit or loss. These estimates are based on a review of the costs associated with PCBs and other environmental liabilities. The 2016 revision relates to Wabush Terminal Station environmental indemnity obtained from Hydro, combined with a revision on the generating plant.

10. 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 are fully owned by Churchill Falls and the Class B shares are entitled to one vote per share but rank pari passu in all other respects.

As at December 31 (thousands of Canadian dollars)	**2016**	2015
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

11. OPERATING COSTS

For the year ended December 31 (thousands of Canadian dollars)	**2016**	2015
Bad debt expense	**-**	690
Maintenance and environmental costs	**(303)**	451
Other operating costs	**113**	357
	(190)	1,498

12. NET FINANCE (INCOME) EXPENSE

For the year ended December 31 (thousands of Canadian dollars)	**2016**	2015
Finance income		
Interest on short-term investments	**-**	(47)
Other interest income	**(40)**	-
	(40)	(47)
Finance expense		
Other interest expense	**1**	-
	1	-
Net finance (income) expense	**(39)**	(47)

13. OTHER (INCOME) EXPENSE

For the year ended December 31 (thousands of Canadian dollars)	**2016**	2015
Loss on disposal of property, plant, and equipment	**252**	-
	252	-

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value

The estimated fair values of financial instruments as at December 31, 2016 and December 31, 2015 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 Twin Falls might receive or incur in actual market transactions.

As a significant number of Twin 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 Twin 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, Twin 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 fair value measurement during the years ended December 31, 2016 and December 31, 2015.

As at December 31, 2016 Twin Falls did not have any Level 3 instruments.

The fair value of cash and cash equivalents, trade and other receivables and trade and other payables approximate their carrying values due to their short-term maturity.

14.1 Risk Management

Twin Falls is exposed to certain credit, liquidity and market price 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 Twin Falls' expected future cash flows.

Credit Risk

Credit risk on cash and cash equivalents is minimal, as cash deposits are held by a Schedule 1 Canadian Chartered Bank with a rating of A+ (Standard and Poor's).

Liquidity Risk

Twin Falls is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. Short-term liquidity is provided through cash and cash equivalents. Long-term liquidity risk is minimized, on a go forward basis, by retaining all earnings.

Market Risk
In the course of carrying out its operating activities, Twin 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 Twin Falls has exposure, include those relating to prevailing interest rates.

Interest Rates
During 2016, Twin Falls did not hold any material financial assets or liabilities that were subject to interest rate risk.

15. 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:

Related Party	Relationship
Churchill Falls	33.3% shareholder of Twin Falls
IOC	49.6% shareholder of Twin Falls
Wabush Mines	17.1% shareholder of Twin Falls
Hydro	65.8% shareholder of Churchill Falls
Nalcor	100.0% shareholder of Hydro

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Outstanding balances due to or from related parties are non-interest bearing with no set terms of repayment, unless otherwise stated.

(a) On December 21, 2016, Hydro and Twin Falls entered into an Indenture and a Release and Indemnity agreement whereby Twin Falls conveyed and assigned all its right title and interest in the Wabush Terminal Station (WTS) to Hydro and Hydro in turn provided a release and indemnity to Twin Falls from liabilities arising from Twin Fall's previous use and/or tenancy of the WTS and related to environmental non-compliance and/or the state, configuration, construction or condition of the WTS.

(b) As at December 31, 2016, Trade and Other Payables includes $13,000 (2015 – $15,000), $12,000 (2015 – $29,000) and $1,000 (2015 – $5,000) related to transition costs provided by Nalcor, Hydro and Churchill Falls respectively.

(c) During 2016, Twin Falls incurred $nil (2015 - $52,000) in maintenance costs. This work was performed by Churchill Falls.

(d) During 2016, Twin Falls incurred $90,000 (2015 - $68,000), $10,000 (2015 - $15,000) and $7,000 (2015 - $25,000) in operating expenses related to transition costs provided by Nalcor, Hydro and Churchill Falls respectively.

(e) In February 2014, Wabush Mines ceased operations in Labrador. On May 20, 2015, Wabush Mines obtained protection from their creditors under the federal Companies' Creditors Arrangement Act. As at December 31, 2016, Twin Falls has recorded accounts receivable from Wabush Mines totalling $780,000 (2015 - $780,000). Due to uncertainty related to recovery of this amount related to the proceeding, Twin Falls has provided $780,000 (2015 - $780,000) as an allowance for doubtful accounts related to this amount receivable.

15.1 Key Management Personnel

Compensation for key management personnel, which Twin Falls defines as its executives who have the primary authority and responsibility in planning, directing and controlling the activities of the entity, includes compensation for senior executives. Salaries and employee benefits include base salaries, performance contract payments, vehicle allowances and contributions to employee benefit plans. Post-employment benefits include contributions to the Province's Public Service Pension Plan.

For the year ended December 31 (thousands of Canadian dollars)	**2016**	2015
Salaries and employee benefits	**16**	10
Post-employment benefits	**1**	1
	17	11

16. COMMITMENTS AND CONTINGENCIES

The results of an Environmental Site Assessment 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 and Polychlorinated biphenyls (PCBs) in sediment and PCBs in fish have generally remained stable, or decreased, since 2010. It is recommended that PCB and hydrocarbon sampling occur every 5 years. Further sampling is recommended to be conducted in 2018 and it is recommended that fishing remain closed in Bonnell Creek due to the presence of PCBs. An additional sampling program occurred in 2015. The objective was to assess the absence or presence of dioxin and furan impacts in fish, sediment and surface waters, and, if present, to assess the extent of impacts. Background concentrations were also determined. Surface water samples at the site were below guidelines. Impacts to fish and sediment were localized near and downstream of the powerhouse and Tailrace. It is recommended that a sediment and fish sampling program occur every 1 to 2 years to ensure that the dioxins and furans are not migrating further from site.

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.

17. CAPITAL MANAGEMENT

Twin Falls' capital consists of shareholders' equity, specifically, share capital and retained earnings. At present, Management is retaining all earnings in order to minimize long-term liquidity risk.

18. INCOME TAXES

Income tax recovery recognized in the Statement of Profit (loss) and comprehensive income (loss) is as follows:

For the year ended December 31 (thousands of Canadian dollars)	**2016**	2015
Income tax recovery		
Current year	**(39)**	(279)
Adjustments in respect of prior periods	**(26)**	-
Origination and reversal of temporary differences	**(41)**	(47)
Total income tax recovery	**(106)**	(326)

Income taxes differ from the amount that would be expected to be calculated by applying the applicable statutory tax rate to earnings before income taxes. The following is a reconciliation of the statutory tax rate to the effective tax rate.

For the year ended December 31 (thousands of Canadian dollars)	**2016**	2015
Combined Canadian federal and provincal statutory income tax rate	**26.3%**	26.4%
Statutory income tax rate applied to earnings before income tax	**(16)**	(394)
Difference between prior year tax recovery expected and actual tax recovery received	**(26)**	-
Items not deductible for income tax purposes	**-**	(1)
Change in unrecognized deferred tax asset resulting from the release of environmental liabilities	**(63)**	69
Difference between tax rate in effect in current year and tax rate in effect for the year in which non-capital loss carry-back applies	**-**	3
Other	**(1)**	(3)
Total income tax recovery	**(106)**	(326)
Effective tax rate	**179%**	22%

The net deferred income tax liability of $12,007 (2015 - $52,637) consists of taxable temporary differences of $12,007 (2015 - $87,631) related to property, plant and equipment and deductible temporary differences related to environmental liabilities of $nil (2015 - $34,994). In addition, a deductible temporary difference of $5,981 (2015 - $69,078) related to environmental liabilities has not been reported as a deferred tax asset as it is not probable that the future income tax benefit will be realized.

Twin Falls has unused net-capital loss carry-forwards of $1,252,467 (2015 - $1,252,467) that have no expiry date. The realization of a potential future income tax benefit related to these net-capital losses is uncertain and cannot be viewed as probable. Accordingly, no deferred income tax asset has been recognized for accounting purposes.

19. SUPPLEMENTARY CASH FLOW INFORMATION

For the year ended December 31 (thousands of Canadian dollars)	**2016**	2015
Trade and other receivables	**288**	3,380
Prepayments	**-**	(11)
Trade and other payables	**(192)**	(3,033)
Environmental liabilities	**(73)**	(100)
Changes in non-cash working capital balances	**23**	236