

**TWIN FALLS POWER CORPORATION LIMITED**  
**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**September 30, 2017**  
**(Unaudited)**

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

<i>As at (thousands of Canadian dollars)</i>	Notes	<b>September 30 2017</b>	December 31 2016
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents		<b>684</b>	5,572
Short-term investments	6	<b>5,032</b>	-
Trade and other receivables		<b>4</b>	41
Prepayments		<b>18</b>	11
<b>Total current assets</b>		<b>5,738</b>	5,624
Non-current assets			
Property, plant and equipment	3	<b>16</b>	58
<b>Total assets</b>		<b>5,754</b>	5,682
<b>LIABILITIES AND EQUITY</b>			
Current liabilities			
Trade and other payables		<b>46</b>	39
Environmental liabilities		<b>23</b>	23
<b>Total current liabilities</b>		<b>69</b>	62
Non-current liabilities			
Deferred income taxes		<b>1</b>	12
<b>Total liabilities</b>		<b>70</b>	74
Shareholders' equity			
Share capital	4	<b>2,513</b>	2,513
Retained earnings		<b>3,171</b>	3,095
<b>Total equity</b>		<b>5,684</b>	5,608
<b>Total liabilities and equity</b>		<b>5,754</b>	5,682

Commitments and contingencies (Note 9)

*See accompanying notes*

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

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Nine months ended	
		2017	2016	2017	2016
Other revenue		-	-	<b>207</b>	-
Finance income	6	<b>15</b>	11	<b>38</b>	29
Revenue		<b>15</b>	11	<b>245</b>	29
Operating costs	5	<b>18</b>	74	<b>109</b>	160
Depreciation	3	-	11	<b>3</b>	32
Loss on disposal of property, plant and equipment		<b>39</b>	-	<b>39</b>	-
Expenses		<b>57</b>	85	<b>151</b>	192
(Loss) profit before income taxes		<b>(42)</b>	(74)	<b>94</b>	(163)
Current income tax expense (recovery)		<b>2</b>	(43)	<b>29</b>	(61)
Deferred income tax recovery		<b>(11)</b>	(2)	<b>(11)</b>	(8)
Income tax (recovery) expense		<b>(9)</b>	(45)	<b>18</b>	(69)
(Loss) profit and comprehensive (loss) income for the period		<b>(33)</b>	(29)	<b>76</b>	(94)

*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
<b>Balance at January 1, 2017</b>	<b>2,513</b>	<b>3,095</b>	<b>5,608</b>
<b>Profit for the period</b>	<b>-</b>	<b>76</b>	<b>76</b>
<b>Balance at September 30, 2017</b>	<b>2,513</b>	<b>3,171</b>	<b>5,684</b>
Balance at January 1, 2016	2,513	3,048	5,561
Loss for the period	-	(94)	(94)
Balance at September 30, 2016	2,513	2,954	5,467

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

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Notes	<b>Three months ended</b>		<b>Nine months ended</b>	
		<b>2017</b>	2016	<b>2017</b>	2016
Operating activities					
(Loss) profit for the period		<b>(33)</b>	(29)	<b>76</b>	(94)
Adjusted for items not involving a cash flow:					
Depreciation	3	-	11	<b>3</b>	32
Loss on disposal of property, plant, and equipment		<b>39</b>	-	<b>39</b>	-
Deferred income tax recovery		<b>(11)</b>	(2)	<b>(11)</b>	(8)
		<b>(5)</b>	(20)	<b>107</b>	(70)
Changes in non-cash working capital balances	10	<b>(9)</b>	101	<b>37</b>	111
<b>Net cash (used in) provided from operating activities</b>		<b>(14)</b>	81	<b>144</b>	41
Investing activity					
Increase in short-term investments		<b>(14)</b>	-	<b>(5,032)</b>	-
<b>Net cash used in investing activity</b>		<b>(14)</b>	-	<b>(5,032)</b>	-
Net (decrease) increase in cash and cash equivalents		<b>(28)</b>	81	<b>(4,888)</b>	41
Cash and cash equivalents, beginning of period		<b>712</b>	5,518	<b>5,572</b>	5,558
Cash and cash equivalents, end of period		<b>684</b>	5,599	<b>684</b>	5,599
Interest received		<b>2</b>	10	<b>14</b>	34
Interest paid		<b>1</b>	-	<b>1</b>	1

*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. 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. The plant has been inoperative since 1974. The plant is located on land that was sub-leased by Twin Falls from 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) owns 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 condensed interim 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**

**Statement of Compliance and Basis of Measurement**

These condensed interim financial statements have been prepared in accordance with International Accounting Standards (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, 2016.

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 and are presented in Canadian dollars and all values rounded to the nearest thousand, except when otherwise noted. The Board of Directors (the Board) has delegated the authority to approve the condensed interim financial statements to the Audit Committee of the Board of Directors of Nalcor, which approved the financial statements on November 7, 2017.

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

**3. 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, 2016	6,122	431	6,553
Disposals	(6,081)	(306)	(6,387)
Balance at December 31, 2016	41	125	166
<b>Disposals</b>	<b>-</b>	<b>(125)</b>	<b>(125)</b>
<b>Balance at September 30, 2017</b>	<b>41</b>	<b>-</b>	<b>41</b>
<b>Depreciation</b>			
Balance at January 1, 2016	5,849	358	6,207
Depreciation	29	7	36
Disposals	(5,854)	(281)	(6,135)
Balance at December 31, 2016	24	84	108
<b>Depreciation</b>	<b>3</b>	<b>-</b>	<b>3</b>
<b>Disposals</b>	<b>(2)</b>	<b>(84)</b>	<b>(86)</b>
<b>Balance at September 30, 2017</b>	<b>25</b>	<b>-</b>	<b>25</b>
<b>Carrying value</b>			
Balance at January 1, 2016	273	73	346
Balance at December 31, 2016	17	41	58
<b>Balance at September 30, 2017</b>	<b>16</b>	<b>-</b>	<b>16</b>

**4. 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.

<i>As at (thousands of Canadian dollars)</i>	<b>September 30 2017</b>	December 31 2016
<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

The voting rights of Twin Falls are held by Churchill Falls at 66.7%, IOC at 24.8% and Wabush Mines at 8.5%.

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

**5. OPERATING COSTS**

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>2017</b>	2016	<b>2017</b>	2016
Salaries and benefits	<b>7</b>	25	<b>45</b>	71
Audit fees	<b>5</b>	5	<b>15</b>	15
Insurance	<b>6</b>	6	<b>17</b>	17
Professional fees	-	7	<b>23</b>	14
Other operating costs	-	31	<b>9</b>	43
	<b>18</b>	74	<b>109</b>	160

**6. FINANCE INCOME**

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>2017</b>	2016	<b>2017</b>	2016
Interest on short-term investments	<b>14</b>	-	<b>25</b>	-
Bank interest	<b>1</b>	11	<b>13</b>	29
Finance income	<b>15</b>	11	<b>38</b>	29

Investments with maturities greater than three months and less than twelve months are classified as short-term investments and are measured at fair value. The effective interest rate on short-term investments at September 30, 2017 was 1.1% per annum (December 31, 2016 - nil). There were no short-term investments for the period ended September 30, 2016.

**7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

**Fair Value**

The estimated fair values of financial instruments as at September 30, 2017 and December 31, 2016 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 are not necessarily indicative of the amounts that Twin Falls might receive or incur in actual market transactions.

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 periods ended September 30, 2017 and December 31, 2016.

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

---

As at September 30, 2017 Twin Falls did not have any Level 3 instruments.

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

**8. 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% 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.

In December 2016, Twin Falls assigned all its right title and interest in the Wabush Terminal Station to Hydro and as a result, additional assets were transferred to Hydro in June 2017 for consideration of \$207,000.

**9. 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.

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 when the sub-lease for the right to develop hydroelectric power expired. The outcome is not determinable at this time.

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

---

**10. SUPPLEMENTARY CASH FLOW INFORMATION**

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>2017</b>	2016	<b>2017</b>	2016
Trade and other receivables	<b>13</b>	250	<b>37</b>	280
Prepayments	<b>(18)</b>	(17)	<b>(7)</b>	(6)
Trade and other payables	<b>(4)</b>	(132)	<b>7</b>	(163)
Changes in non-cash working capital balances	<b>(9)</b>	101	<b>37</b>	111