



**CHURCHILL FALLS (LABRADOR)  
CORPORATION LIMITED**

and

*Twin Falls Power Corporation Limited*

**Auditors' Report  
and  
Financial Statements**

**for the year ended  
December 31, 1984**





**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**



## OFFICERS

\*\*Chairman and Chief Executive Officer  
VICTOR L. YOUNG, B. Comm., M.B.A.

President  
BRIAN C. McGRATH, P. Eng.

Vice-President, Finance and  
Chief Financial Officer  
R. ANDREW GRANT, C.A.

Vice-President, Operations  
and Engineering  
T. DAVID COLLETT, P. Eng.

Corporate Secretary  
SIDNEY W. BUTLER, P. Adm.

Assistant Corporate Secretary  
FRANK A. WRIGHT, LL.B., F.C.I.S.

Controller  
AXEL J. SORENSEN, R.I.A.

Treasurer  
GEORGE N. GRAY, F.I.C.B.

## DIRECTORS

\*JOSEPH BOURBEAU, Eng.  
Montreal, Quebec  
Chairman  
Hydro-Quebec

\*GUY COULOMBE  
Montreal, Quebec  
President and Chief Executive Officer  
Hydro-Quebec

\*JAMES J. GREENE, Q.C.  
St. John's, Newfoundland  
Partner  
O'Dea, Greene

\*DAVID W. MERCER, B.A., M.A.  
St. John's, Newfoundland  
Vice-President, Corporate Planning  
Newfoundland and Labrador Hydro

BRIAN C. McGRATH, P. Eng.  
St. John's, Newfoundland  
President  
Churchill Falls (Labrador) Corporation Limited

\*MICHAEL J. MONAGHAN, Q.C.  
Corner Brook, Newfoundland  
Partner  
Monaghan, Seaborn, Marshall and Roberts

WALLACE S. READ, P. Eng.  
St. John's, Newfoundland  
Executive Vice-President  
Newfoundland and Labrador Hydro

\*\*VICTOR L. YOUNG, B. Comm., M.B.A.  
St. John's, Newfoundland  
Chairman and Chief Executive Officer  
Churchill Falls (Labrador) Corporation Limited  
Newfoundland and Labrador Hydro  
Chairman  
Lower Churchill Development Corporation Limited

HEAD AND CORPORATE OFFICE  
50 Elizabeth Avenue  
St. John's, Newfoundland  
A1A 2X9

\*Member of the Audit Committee

\*\*Resigned November 15, 1984

Effective January 24, 1985  
Cyril J. Abery was elected  
Chairman and Chief Executive Officer



Peat, Marwick, Mitchell & Co.  
Chartered Accountants  
Viking Building  
Crosbie Road  
St. John's, Newfoundland A1B 3K3  
(709) 722-5593

### Auditors' Report to the Shareholders

We have examined the balance sheet of Churchill Falls (Labrador) Corporation Limited as at December 31, 1984 and the statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1984 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Peat, Marwick, Mitchell & Co.*

Chartered Accountants

St. John's, Newfoundland  
Canada

February 4, 1985, except as to Note  
8(a) which is as of February 11, 1985  
and Note 10(b)(iii) which is as of  
February 18, 1985.



## CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

### Management Report to the Shareholders

The financial statements of the Company have been prepared by Management in accordance with Canadian generally accepted accounting principles consistently applied and including information available up to February 4, 1985, except as to Note 8(a) which is as of February 11, 1985 and Note 10(b)(iii) which is as of February 18, 1985. The integrity and objectivity of the data in these financial statements, including estimates and judgments relating to matters not concluded by year end, are the responsibility of Management.

The Management of the Company maintains systems of internal accounting controls and procedures to provide reasonable assurance at reasonable cost that its assets are safeguarded against loss from unauthorized use or disposition and that the financial records provide a reliable basis for the preparation of financial statements and other data, as well as maintaining accountability for corporate assets.

The independent auditors of the Company provide an objective, independent review of Management's discharge of its responsibilities as they relate to the fairness of reported operating results and the financial condition of the Company in accordance with generally accepted accounting principles.

The Board of Directors pursues its responsibility for these financial statements principally through its Audit Committee which meets periodically with Management as well as with the internal and independent auditors who have full and free access to the Audit Committee, and meet with it, with and without Management being present, to discuss auditing and financial reporting matters.

Management is responsible for and the Board of Directors has approved all of the information in the financial statements.

A handwritten signature in dark ink, appearing to read "Cyril J. Abreu", written over a horizontal line.

Chairman and Chief Executive Officer

A handwritten signature in dark ink, appearing to read "B. J. Smith", written over a horizontal line.

President

A handwritten signature in dark ink, appearing to read "L. A. Hart", written over a horizontal line.

Vice-President Finance  
and Chief Financial Officer

St. John's, Newfoundland  
Canada

February 4, 1985, except as to Note  
8(a) which is as of February 11, 1985  
and Note 10(b)(iii) which is as of  
February 18, 1985.



## CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

### Balance Sheet December 31, 1984 with comparative figures for 1983

	1984 (000)	1983 (000)
<b>Assets</b>		
Fixed assets (Note 2)		
Property, plant and equipment .....	\$ 740,709	752,444
Current assets		
Cash and short-term deposits .....	46,275	39,704
Receivables and accrued interest .....	19,512	15,089
Due from affiliates .....	3,222	4,208
Supplies and prepaid expenses .....	<u>5,533</u>	<u>5,403</u>
	74,542	64,404
Long-term receivable (Note 3) .....	29,397	—
Investment in Twin Falls Power Corporation Limited (Note 4) .....	2,903	2,898
Deferred foreign exchange loss .....	12,216	—
Unamortized debt discount and financing expenses .....	<u>4,658</u>	<u>4,932</u>
	\$ <u>864,425</u>	<u>824,678</u>



**Liabilities and Shareholders' Equity**

	1984 (000)	1983 (000)
Long-term debt (Note 5).....	\$ 540,646	544,639
Current liabilities		
Accounts payable and accrued liabilities.....	4,916	5,295
Royalty and rental due to the Province of Newfoundland (Note 10(a)) .....	8,535	4,899
Long-term debt due within one year (Note 5) .....	<u>16,618</u>	<u>17,934</u>
	30,069	28,128
Shareholders' equity		
Share capital (Note 6) .....	82,900	82,900
Retained earnings (Note 7).....	<u>210,810</u>	<u>169,011</u>
	293,710	251,911
	<u>\$ 864,425</u>	<u>824,678</u>

See accompanying notes

On behalf of the Board:

Signed Cyril J. Albert  
Director

Signed Ray Taulamba  
Director



# CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

## Statement of Income and Retained Earnings Year ended December 31, 1984 with comparative figures for 1983

	1984 (000)	1983 (000)
Revenue		
Sales of power (Note 8) .....	\$ 108,177	92,136
Rental of rights and facilities to Twin Falls Power Corporation Limited .....	735	735
Equity in net income of Twin Falls Power Corporation Limited for the year (Note 4) .....	<u>803</u>	<u>839</u>
Total revenue .....	<u>109,715</u>	<u>93,710</u>
Expenses		
Operating costs .....	17,388	16,332
Horsepower royalty and Newfoundland rental (Note 10(a)) ...	8,535	4,899
Interest (Note 9) .....	1,081	28,098
Depreciation .....	<u>13,290</u>	<u>13,274</u>
Total expenses .....	<u>40,294</u>	<u>62,603</u>
Net income for the year .....	69,421	31,107
Retained earnings at beginning of year .....	<u>169,011</u>	<u>159,932</u>
	238,432	191,039
Dividends (Note 7) .....	<u>27,622</u>	<u>22,028</u>
Retained earnings at end of year .....	\$ <u>210,810</u>	<u>169,011</u>

See accompanying notes



# CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

## Statement of Changes in Financial Position Year ended December 31, 1984 with comparative figures for 1983

	1984 (000)	1983 (000)
Funds provided		
From operations		
Net income .....	\$ 69,421	31,107
Add (deduct) items not requiring (providing) working capital		
Amortization of deferred foreign exchange loss .....	409	—
Amortization of debt discount and financing expenses ...	274	274
Depreciation .....	13,290	13,274
Equity in net income of Twin Falls Power Corporation Limited for the year .....	<u>(803)</u>	<u>(839)</u>
Funds provided from operations .....	82,591	43,816
Reduction in long-term receivable .....	5,879	—
Dividends from Twin Falls Power Corporation Limited .....	<u>798</u>	<u>800</u>
Total funds provided .....	<u>89,268</u>	<u>44,616</u>
Funds applied		
Additions to fixed assets .....	1,555	323
Long-term debt .....	16,618	18,028
Dividends .....	27,622	22,028
Increase in long-term receivable .....	<u>35,276</u>	<u>—</u>
Total funds applied .....	<u>81,071</u>	<u>40,379</u>
Increase in working capital .....	8,197	4,237
Working capital at beginning of year .....	<u>36,276</u>	<u>32,039</u>
Working capital at end of year .....	\$ <u>44,473</u>	<u>36,276</u>

See accompanying notes



# CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

## Notes to Financial Statements December 31, 1984

Churchill Falls (Labrador) Corporation Limited ("Churchill Falls") is incorporated under the laws of Canada and operates a hydro-electric generating plant and related transmission facilities in Labrador with a rated capacity of 5,225 megawatts ("Project"). The Project operates under rights leased from the Province of Newfoundland ("Province") for 99 years under the Churchill Falls (Labrador) Corporation Limited (Lease) Act, 1961, ("Lease") as amended covering the water power potential of the Upper Churchill watershed. A power contract with Hydro-Quebec dated May 12, 1969 ("Power Contract") provides for the sale of substantially all the energy from the Project for an initial period expiring in 2016 with an automatic option of renewal for a further period of 25 years. In 1976 the Province requested Churchill Falls to supply 800 megawatts of power, commencing in 1983, pursuant to the Lease to meet the Province's requirements. This request was denied and legal action was commenced and is continuing against Churchill Falls (see Note 10(b)(ii)).

Churchill Falls qualifies for exemption from payment of income taxes under Section 149(1)(d) of the Income Tax Act.

### 1. *Summary of Significant Accounting Policies*

The accounting policies followed by Churchill Falls are in accordance with generally accepted accounting principles in Canada.

#### Investment in Shares of Twin Falls Power Corporation Limited

Churchill Falls owns voting control (66 2/3%) of Twin Falls Power Corporation Limited ("Twin Falls"). However, such shares represent only a 33 1/3% interest in the equity of Twin Falls.

In view of the fact that the equity interest in Twin Falls is 33 1/3% and as the principal assets and the credit resources of Twin Falls cannot be transferred to Churchill Falls, consolidation is not considered appropriate and the investment is carried on an equity basis.

#### Depreciation and Amortization

- (a) Churchill Falls provides depreciation at a rate of 1 1/2% per annum on a straight-line basis on property, plant and equipment.
- (b) Debt discount and financing expenses are being amortized on a straight-line basis over the estimated term of the First Mortgage Bonds.

#### Foreign Currencies

Churchill Falls changed its accounting policy with respect to foreign currency translation prospectively from January 1, 1984 to conform with the recommendations of the Canadian Institute of Chartered Accountants. The effect of adopting this change did not significantly affect net earnings.

Foreign currency transactions are translated into their Canadian dollar equivalent substantially in accordance with the temporal method as follows:

- a) At the transaction date, each asset, liability, revenue or expense is translated using exchange rates in effect at that date.
- b) At each balance sheet date monetary assets and liabilities are translated using exchange rates at that date.

- c) Foreign exchange gains and losses are included in income in the current period except for unrealized gains and losses related to First Mortgage Bonds. Under the Power Contract Churchill Falls recovers a portion of the difference between actual exchange rates prevailing at the settlement dates of its First Mortgage Bonds and a Weighted Average Exchange Rate as defined in the Power Contract. The foreign exchange loss not recoverable under the Power Contract is being amortized to operations over the remaining life of the debt.

#### Insurance

Churchill Falls has adopted the policy of appropriating a portion of retained earnings as a reserve for self insurance of risks for direct damage to assets and related loss of revenue with respect to deductibles stipulated in its insurance policies.

#### 2. Fixed Assets

	1984 (000)	1983 (000)
Property, plant and equipment, at cost .....	\$ 883,864	884,512
Less accumulated depreciation .....	<u>143,155</u>	<u>132,068</u>
	\$ <u>740,709</u>	<u>752,444</u>

These assets of Churchill Falls are pledged as security for long-term debt.

#### 3. Long-Term Receivable

The long-term receivable relates to the additional revenue referred to in Note 8 (b) plus interest referred to in Note 9. Payments of the amount related to the initial review period will be received in monthly instalments over an eight year period which commenced September 1, 1984. The receivable bears interest at 7% per annum from September 1, 1984, which interest is payable concurrently with each instalment. Details of the receivable are as follows:

	(000)
Additional revenue plus interest to August 31, 1984 .....	\$ 35,276
Payments received .....	<u>1,470</u>
	33,806
Reclassified to current receivables .....	<u>4,409</u>
Long-term receivable .....	\$ <u>29,397</u>

#### 4. Investment in Twin Falls

	1984 (000)	1983 (000)
Shares, at cost .....	\$ 2,500	2,500
Equity in retained earnings at beginning of year .....	\$ 398	359
Equity in net income for the year .....	<u>803</u>	<u>839</u>
	1,201	1,198
Dividends for the year .....	<u>798</u>	<u>800</u>
	\$ <u>2,903</u>	<u>2,898</u>

## 5. Long-Term Debt

Details of long-term debt at December 31 are as follows:

	(000)	1984 (U.S. 000)	(000)	1983 (U.S. 000)
<b>First Mortgage Bonds</b>				
7 3/4% Series A due December 15, 2007				
Authorized .....		\$ <u>500,000</u>		<u>500,000</u>
Issued .....	\$ 528,414	500,000	513,277	500,000
Retired .....	<u>101,971</u>	<u>96,488</u>	<u>84,750</u>	<u>82,558</u>
Outstanding at December 31 .....	426,443	403,512	428,527	417,442
Due within one year .....	<u>13,529</u>	<u>12,802</u>	<u>14,662</u>	<u>14,282</u>
Long-term debt .....	<u>412,914</u>	<u>390,710</u>	<u>413,865</u>	<u>403,160</u>
7 7/8% Series B due December 15, 2007				
Authorized .....	\$ <u>50,000</u>		<u>50,000</u>	
Issued .....	50,000		50,000	
Retired .....	<u>9,572</u>		<u>8,191</u>	
Outstanding at December 31 .....	40,428		41,809	
Due within one year .....	<u>1,281</u>		<u>1,428</u>	
Long-term debt .....	<u>39,147</u>		<u>40,381</u>	
<b>General Mortgage Bonds</b>				
7 1/2% due three years after latest maturity of any First Mortgage Bonds				
Authorized .....	\$ <u>100,000</u>		<u>100,000</u>	
Issued .....	100,000		100,000	
Retired .....	<u>9,607</u>		<u>7,763</u>	
Outstanding at December 31 .....	90,393		92,237	
Due within one year .....	<u>1,808</u>		<u>1,844</u>	
Long-term debt .....	<u>88,585</u>		<u>90,393</u>	
Total long-term debt .....	\$ <u>540,646</u>		<u>544,639</u>	

### First Mortgage Bonds

The Series A and Series B bonds are repayable in fixed semi-annual and in contingent annual sinking fund instalments which commenced June 1978.

The principal amounts of the Series A bonds have been increased in 1984 to reflect the change in accounting policy relating to foreign currencies as set out in Note 1.

### General Mortgage Bonds

The Deed of Trust and Mortgage securing the General Mortgage Bonds provides for semi-annual sinking fund payments which commenced in June 1980. Each payment will be an amount equal to 1% of the aggregate principal amount outstanding on January 1 preceding each payment date. These bonds are subordinate to the First Mortgage Bonds.

### Repayment of Long-Term Debt

Due to the contingent nature of the amounts of certain of the sinking fund instalments it is not possible to be precise concerning long-term debt repayments over the next five years, but these, if made in accordance with sinking fund provisions applicable to Churchill Falls as a taxable corporation, are estimated to be \$17,000,000 in each of the years 1985 and 1989 inclusive.

## 6. Share Capital

The share capital of Churchill Falls as at December 31, 1984 and 1983 is summarized below:

	Shares	Amount (000)
Common shares without nominal or par value		
Authorized .....	10,000,000	
Issued and fully paid .....	8,759,999	\$ 82,900
Preferred shares without nominal or par value		
Authorized, issued and fully paid .....	3	—

Additional shares cannot be issued without the approval from the holders of at least 75% of the outstanding common shares.

The preferred shares are divided into three classes and the dividends thereon, which rank *pari passu* but ahead of dividends on common shares are as follows:

The Class A Cumulative Preferred Shareholder is entitled to dividend payments calculated as the amount equal to the income taxes which would have been received by the Province had Churchill Falls continued to be a taxable corporation.

The Class B Redeemable Cumulative Preferred Shareholder is entitled to dividends equal to the Additional Quebec Interest Subsidy Payment, as defined, during the life of the First Mortgage Bonds.

The Class C Redeemable Cumulative Preferred Shareholder is entitled to dividends equal to the Additional Newfoundland Interest Subsidy Payment, as defined, during the life of the First Mortgage Bonds.

## 7. Retained Earnings

Under the terms of the long-term debt instruments, Churchill Falls may pay cash dividends only out of earnings, as defined, accumulated from September 1, 1976. At December 31, 1984 the amount of retained earnings available for cash dividends was \$40,350,000 (1983 - \$5,920,000). The policy of the company is to relate dividends to cash flow and therefore dividend payments will be influenced by the receipt of the long-term receivable (Note 3). Subsequent to December 31, 1984 the Directors declared a dividend on the common shares amounting to \$9,548,399, and a dividend on the Class A preferred share amounting to \$300,000.

In the event that Churchill Falls was to no longer qualify for income tax exemption, deferred income taxes would have to be reinstated. At December 31, 1984 such deferred income taxes amounted to approximately \$1,650,000 (1983 - \$4,900,000).

At December 31, 1984 \$4,300,000 (1983 - \$3,700,000) of the retained earnings has been appropriated as a reserve for self insurance.

## 8. Sales of Power

- (a) Sales of power under the Power Contract have been recorded at mill rates based on a determination by an independent auditor that the Final Capital Cost of the Project is \$887,575,000. Hydro-Quebec and Churchill Falls implemented an increase in rates during 1981 without prejudice to the right of either party in further negotiations or in a judicial review of the Final Capital Cost pursuant to the provisions of the Power Contract. Churchill Falls instituted proceedings in November, 1984 in the Quebec Superior Court claiming that the Final Capital Cost is in excess of \$900,000,000, the maximum to be used as a basis for the mill rate. Hydro-Quebec filed a preliminary motion concerning whether Churchill Falls could institute the action, which motion was heard January 21, 1985. On February 11, 1985 the Court upheld the preliminary motion and stated that it lacked jurisdiction over the subject matter of the action as drafted by Churchill Falls. Churchill Falls is reviewing whether it will appeal this judgement.
- (b) The terms Energy Payable and Annual Energy Base are defined in the Power Contract. Section 8.5.2 of the Power Contract provides for an initial eight year review and subsequent four year reviews of the annual average Energy Payable for comparison with the Annual Energy Base then in effect. When the annual average Energy Payable exceeds the Annual Energy Base in effect an additional payment is due from Hydro-Quebec, the amount being calculated in accordance with Article VIII of the Power Contract. Conversely, if a shortfall should occur, a refund would be due from Churchill Falls to Hydro-Quebec. Article IX of the Power Contract provides for adjustment to the Annual Energy Base where applicable in the same time intervals.

Energy delivered to Hydro-Quebec during the period September 1, 1976 to August 31, 1984 was reviewed in September 1984 to determine the annual average Energy payable for comparison with the Annual Energy Base in effect during the period. The annual average Energy payable during the initial period was determined to be in excess of the Annual Energy Base, thereby resulting in an adjustment of \$10,893,000, which amount has been included in sale of power in 1984.

The Annual Energy Base was also reviewed pursuant to Article IX and was increased from 31.5 billion kwhs (Hydro-Quebec 30.74 kwhs) per annum to 32.2 billion kwhs (Hydro-Quebec 31.44 kwhs) per annum, the maximum permissible under the Power Contract.

## 9. Interest

Churchill Falls recovers the difference between interest calculated at the rates described in the Power Contract and interest paid on its long-term debt together with a portion of the difference between actual exchange rates prevailing at the time of the interest payments and the Weighted Average Exchange Rate as defined in the Power Contract.

An analysis of interest and amortization of debt discount and financing expenses is as follows:

	1984 (000)		1983 (000)
Gross interest .....	\$ 55,580		53,744
Less: Interest income relating to revenue adjustment (See Note 8(b)) .....	\$ 25,094	—	
Interest income .....	5,792	4,772	
Recovered from power customers .	<u>23,887</u>	<u>54,773</u>	<u>21,148</u>
			<u>25,920</u>
Net interest expense .....	807		27,824
Amortization of debt discount and financing expenses .....		<u>274</u>	<u>274</u>
	\$	<u>1,081</u>	<u>28,098</u>

Also, Churchill Falls can require Hydro-Quebec to make additional advances, against the issue of units of Subordinate Debentures and shares of common stock, to service its debt and to cover its expenses if funds are not otherwise available.



## 10. Commitments and Contingencies

- (a) Under the terms of the Lease and amendments thereto Churchill Falls is required to pay an annual rental of 8% of the consolidated net profits before income taxes, as defined, and an annual royalty of \$.50 per horsepower year generated, as defined.
- (b) (i) In 1980 the Province enacted The Upper Churchill Water Rights Reversion Act (the "Legislation"). The Province referred the Legislation to the Newfoundland Supreme Court, Court of Appeal for an opinion on its constitutional validity. The opinion rendered was that the Legislation was valid. This opinion was appealed to the Supreme Court of Canada and on May 3, 1984 this Court rendered its unanimous opinion that the Legislation is ultra vires, that is, beyond the power of the Province to enact.
- (ii) A request was made by the Province in 1976 for Churchill Falls to supply 800 megawatts of power pursuant to Clause 2(e) of Part I of the Lease to meet the Province's requirements commencing in 1983. This request was denied and legal action was commenced against Churchill Falls. The trial of this action concluded July 8, 1982 and on June 13, 1983 the Newfoundland Supreme Court, Trial Division, denied the Province's request. This judgement was appealed to the Newfoundland Supreme Court, Court of Appeal which heard the appeal on October 15-18, 1984. At the conclusion of the hearing judgement was reserved.
- (iii) In June 1977, Hydro-Quebec commenced an action against Churchill Falls and the Province in the Superior Court in Montreal to obtain a declaration as to certain rights and obligations of the parties under the Power Contract. This action was dismissed on preliminary points of law in August 1977. The Court of Appeal of Quebec reversed the decision of the lower court and this decision was appealed by Churchill Falls and the Province to the Supreme Court of Canada which rendered its judgement on August 9, 1982. The Supreme Court of Canada decided that Hydro-Quebec could proceed against Churchill Falls, but not against the Province. Hydro-Quebec filed an amended motion seeking a declaration as to its rights under the Power Contract should Churchill Falls comply with the Province's request referred to in Note 10(b)(ii). On August 4, 1983 judgement was rendered in which the Superior Court stated that, inter alia, failure by Churchill Falls to supply Hydro-Quebec all the power and energy pursuant to the Power Contract would be a breach of the Power Contract. This judgement was appealed by Churchill Falls, and the appeal was heard by the Quebec Court of Appeal on December 12, 1984. On February 18, 1985 the Court rendered its judgement dismissing the appeal. Churchill Falls is reviewing this decision to determine whether it will seek leave from the Supreme Court of Canada to appeal.
- (c) Under the terms of a sublease with Twin Falls, expiring on December 31, 1989, with a twenty-five year renewal option under certain conditions, Churchill Falls is required to deliver to Twin Falls, at an agreed price, horsepower equivalent to the installed horsepower of the Twin Falls plant and to maintain the Twin Falls plant and equipment.
- (d) Proceedings have been instituted by Churchill Falls against contractors for damages resulting from the reduction in revenue due to premature failure of certain generating units. Settlement of this matter is currently under negotiation.

## 11. Remuneration of Directors and Officers

The aggregate remuneration to persons who served as directors and officers of Churchill Falls at any time during the year was as follows:

	Number	Aggregate Remuneration
Directors — 1984	8	\$ 11,800
— 1983	8	8,300
Officers — 1984	8 (Directors - 2)	336,541
— 1983	8 (Directors - 2)	320,491

In 1984 one officer and four directors of Churchill Falls served without remuneration. At December 31, 1984 there were seven directors and seven officers.



# Twin Falls Power Corporation Limited

## OFFICERS

President

BRIAN C. McGRATH, P. Eng.

Vice-President, Finance

R. ANDREW GRANT, C.A.

Vice-President, Operations  
and Engineering

T. DAVID COLLETT, P. Eng.

Corporate Secretary

SIDNEY W. BUTLER, P. Adm.

Assistant Corporate Secretary

FRANK A. WRIGHT, LL.B., F.C.I.S.

Controller

AXEL J. SORENSEN, R.I.A.

Treasurer

GEORGE N. GRAY, F.I.C.B.

## DIRECTORS

FRANK H. CARTER, B.A., LL.B.

Montreal, Quebec

General Solicitor

Pickands, Mather & Company

T. DAVID COLLETT, P. Eng.

Churchill Falls, Labrador

Vice-President, Operations and Engineering

Churchill Falls (Labrador) Corporation Limited

J.H. FATUM

Cleveland, Ohio, U.S.A.

General Manager, Research & Planning

Pickands, Mather & Company

R. ANDREW GRANT, C.A.

St. John's, Newfoundland

Vice-President, Finance and

Chief Financial Officer

Churchill Falls (Labrador) Corporation Limited

MAUREEN P. GREENE, B.A., LL.B., LL.M.

St. John's, Newfoundland

Legal Counsel

Churchill Falls (Labrador) Corporation Limited

JOHN P. HENDERSON, P. Eng., F.E.I.C.

St. John's, Newfoundland

Vice-President, Operations

Newfoundland and Labrador Hydro

ROBERT A. MARTIN

Sept. Iles, Quebec

Senior Vice-President

Iron Ore Company of Canada

BRIAN C. McGRATH, P. Eng.

St. John's, Newfoundland

President

Churchill Falls (Labrador) Corporation Limited

WALTER F. MILLER

Cleveland, Ohio, U.S.A.

Executive Vice-President

Iron Ore Company of Canada

HEAD OFFICE

50 Elizabeth Avenue

St. John's, Newfoundland

A1A 2X9



Peat, Marwick, Mitchell & Co.  
Chartered Accountants  
Viking Building  
Crosbie Road  
St. John's, Newfoundland A1B 3K3  
(709) 722-5593

### Auditors' Report to the Shareholders

We have examined the balance sheet of Twin Falls Power Corporation Limited as at December 31, 1984 and the statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1984 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Peat, Marwick, Mitchell & Co.*

Chartered Accountants

St. John's, Newfoundland  
Canada

February 4, 1985

# Twin Falls Power Corporation Limited

Balance Sheet December 31, 1984  
with comparative figures for 1983

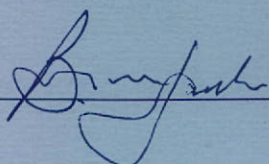
	1984 (000)	1983 (000)
<b>Assets</b>		
Fixed assets (Notes 2 and 3)		
Plant and equipment .....	\$ 27,281	29,247
Current assets		
Cash and short-term deposits .....	2,175	3,390
Receivables - trade .....	481	411
Due from affiliates .....	<u>—</u>	<u>891</u>
	2,656	4,692
	<u>          </u>	<u>          </u>
	\$ <u>29,937</u>	<u>33,939</u>

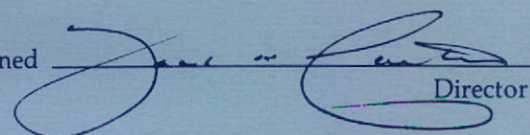
### Liabilities and Shareholders' Equity

	1984 (000)	1983 (000)
Long-term debt (Note 3).....	\$ 3,807	7,474
Current liabilities		
Accounts payable and accrued liabilities.....	38	1
Due to affiliate.....	125	—
Income taxes.....	213	59
Long-term debt due within one year (Note 3).....	<u>3,667</u>	<u>3,471</u>
	4,043	3,531
Deferred income taxes.....	13,379	14,241
Shareholders' equity		
Share capital (Note 4).....	7,500	7,500
Retained earnings (Note 3).....	<u>1,208</u>	<u>1,193</u>
	<u>8,708</u>	<u>8,693</u>
	<u>\$ 29,937</u>	<u>33,939</u>

See accompanying notes

On behalf of the Board:

Signed  \_\_\_\_\_ Director

Signed  \_\_\_\_\_ Director

# Twin Falls Power Corporation Limited

## Statement of Income and Retained Earnings Year ended December 31, 1984 with comparative figures for 1983

	1984 (000)	1983 (000)
Revenue		
Sales of power .....	\$ <u>10,156</u>	<u>10,111</u>
Expenses		
Cost of power (Note 5) .....	2,201	2,156
Interest on long-term debt .....	578	765
Depreciation .....	<u>1,987</u>	<u>1,984</u>
Total expenses .....	<u>4,766</u>	<u>4,905</u>
	5,390	5,206
Interest income .....	<u>430</u>	<u>548</u>
Income before income taxes .....	<u>5,820</u>	<u>5,754</u>
Income taxes (Note 6) — Current .....	4,274	4,079
— Deferred .....	<u>(862)</u>	<u>(842)</u>
	<u>3,412</u>	<u>3,237</u>
Net income for the year .....	2,408	2,517
Retained earnings at beginning of year .....	<u>1,193</u>	<u>1,076</u>
	3,601	3,593
Dividends (Note 3) .....	<u>2,393</u>	<u>2,400</u>
Retained earnings at end of year .....	\$ <u>1,208</u>	<u>1,193</u>

See accompanying notes



# Twin Falls Power Corporation Limited

## Statement of Changes in Financial Position Year ended December 31, 1984 with comparative figures for 1983

	1984 (000)	1983 (000)
Funds provided		
Net income .....	\$ 2,408	2,517
Add (deduct) items not requiring (providing) working capital		
Depreciation .....	1,987	1,984
Deferred income taxes .....	<u>(862)</u>	<u>(842)</u>
Total funds provided .....	<u>3,533</u>	<u>3,659</u>
Funds applied		
Long-term debt becoming current .....	3,667	3,471
Additions to fixed assets .....	21	74
Dividends .....	<u>2,393</u>	<u>2,400</u>
Total funds applied .....	<u>6,081</u>	<u>5,945</u>
Decrease in working capital .....	(2,548)	(2,286)
Working capital at beginning of year .....	<u>1,161</u>	<u>3,447</u>
Working capital (deficiency) at end of year .....	<u>\$ (1,387)</u>	<u>1,161</u>

See accompanying notes

# Twin Falls Power Corporation Limited

## Notes to Financial Statements December 31, 1984

Twin Falls Power Corporation Limited ("Twin Falls") is incorporated under the laws of Canada and has developed a 225 megawatt hydro-electric generating plant on the Unknown River in Labrador. The plant has been inoperative since 1974 (refer to Note 5).

### 1. Summary of Significant Accounting Policies

The accounting policies followed by Twin Falls are in accordance with generally accepted accounting principles in Canada.

#### Depreciation

- (a) Plant and related equipment is depreciated using the straight-line method at a rate of 3% per annum.
- (b) Other furniture and equipment is depreciated using the straight-line method at a rate of 10% per annum.

#### Foreign Currencies

The First Mortgage Bonds are carried in the accounts at the proceeds realized in Canadian dollars as the funds required to service this debt are made available in U.S. dollars under long-term power contracts without loss or gain on exchange to Twin Falls. All other accounts in foreign currencies are stated in Canadian dollars at the exchange rate in effect at the balance sheet date.

### 2. Fixed Assets

	1984 (000)	1983 (000)
Plant and equipment, at cost .....	\$ 66,286	66,265
Less accumulated depreciation .....	<u>39,005</u>	<u>37,018</u>
	<u>\$ 27,281</u>	<u>29,247</u>

### 3. Long-Term Debt

The following amounts of 5 1/2% First Mortgage Bonds Series A due June 30, 1986, and 6 1/4% First Mortgage Bonds Series B due June 30, 1989, have been authorized, issued and retired by Twin Falls pursuant to the terms of the Deed of Trust and Mortgage ("Trust Deed") as amended:

		1984		1983
	(000)	(U.S. 000)	(000)	(U.S. 000)
Series A				
Authorized .....	\$ <u>45,256</u>	<u>42,500</u>	<u>45,256</u>	<u>42,500</u>
Issued .....	42,061	39,500	42,061	39,500
Retired .....	<u>37,306</u>	<u>35,035</u>	<u>34,344</u>	<u>32,253</u>
Outstanding at December 31 .....	4,755	4,465	7,717	7,247
Due within one year .....	<u>3,127</u>	<u>2,936</u>	<u>2,962</u>	<u>2,782</u>
Long-term debt .....	<u>1,628</u>	<u>1,529</u>	<u>4,755</u>	<u>4,465</u>
Series B				
Authorized .....	\$ <u>10,783</u>	<u>10,000</u>	<u>10,783</u>	<u>10,000</u>
Issued .....	8,626	8,000	8,626	8,000
Retired .....	<u>5,907</u>	<u>5,478</u>	<u>5,398</u>	<u>5,006</u>
Outstanding at December 31 .....	2,719	2,522	3,228	2,994
Due within one year .....	<u>540</u>	<u>501</u>	<u>509</u>	<u>472</u>
Long-term debt .....	<u>2,179</u>	<u>2,021</u>	<u>2,719</u>	<u>2,522</u>
Total long-term debt .....	\$ <u>3,807</u>	<u>3,550</u>	<u>7,474</u>	<u>6,987</u>

Estimated repayments of First Mortgage Bonds over the next five years are:

	(000)	(U.S. 000)
1985	\$ 3,667	3,437
1986	2,204	2,063
1987	611	567
1988	650	603
1989	342	317

The Bonds are repayable in equal semi-annual instalments of principal and interest. The Bonds are secured by a first fixed and specific mortgage, pledge and charge on plant and equipment and long-term power and other contracts and a first floating charge on all other assets of Twin Falls. Certain restrictions are placed by the Trust Deed on the payment of dividends other than stock dividends. The Series A Bonds will be retired June 1986.

#### 4. Share Capital

##### Authorized

- 500,000 Class A shares without nominal or par value.
- 1,000,000 Class B shares without nominal or par value.

##### Issued and fully paid

250,000 Class A shares .....	\$ 2,500,000
500,000 Class B shares .....	<u>5,000,000</u>
	<u>\$ 7,500,000</u>

The issued Class A shares are owned by Churchill Falls (Labrador) Corporation Limited ("Churchill Falls") and the issued Class B shares are owned by the present long-term customers of Twin Falls. 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.

#### 5. Commitments

Twin Falls has a sublease from Churchill Falls giving Twin Falls the right to develop the hydro-electric power potential of the Unknown River, a tributary of the Churchill River, at the site of the Twin Falls plant. The sublease expires December 31, 1989, but may be renewed for a term of 25 years under certain conditions, if Twin Falls so requests. Certain rights under the sublease were suspended by Churchill Falls with effect from June 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 sublease or any renewal thereof, 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 to Churchill Falls an annual royalty of \$.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.

In 1980 the Province enacted The Upper Churchill Water Rights Reversion Act (the "Legislation"). The Province referred the Legislation to The Newfoundland Supreme Court, Court of Appeal for an opinion on its constitutional validity. The opinion rendered was that the Legislation was valid. This opinion was appealed to The Supreme Court of Canada and on May 3, 1984 this Court rendered its unanimous opinion that the Legislation is *ultra vires*, that is, beyond the power of the Province to enact.

#### 6. Income Taxes

The income tax provision included in the statement of income is based on a rate which is different from the prevailing rate primarily because of the treatment of losses, on redemption of bonds, for income tax purposes.

#### 7. Directors and Officers

During the year Twin Falls had nine directors and seven officers including three who were both directors and officers. In 1984 and 1983 no remuneration was paid by Twin Falls to its directors and officers. At December 31, 1984 there were nine directors and seven officers.







