



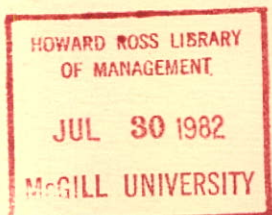
# **CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**

and

Twin Falls Power Corporation Limited

## **Auditors' Report and Financial Statements**

for the year ended  
December 31, 1981







**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**

St. John's, Newfoundland P. O. Box 9200 A1A 2X9 • Telephone (709) 737-1450 • Telex 016-4503

July 26, 1982

Serials Assistant  
Howard Ross Library of Management  
McGill University  
1001 Sherbrooke Street West  
Montreal, P. Q.  
H3A 1G5

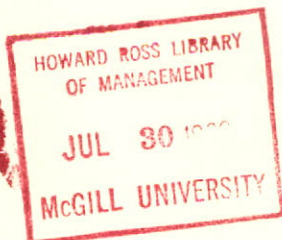
Dear Sirs:

We are pleased to enclose the Financial Statements of Churchill Falls (Labrador) Corporation Limited and Twin Falls Power Corporation Limited for the year ended December 31, 1981.

Yours very truly

W. Alyward  
Accounting Manager

WA/cc





THE  
OFFICE OF THE  
ATTORNEY GENERAL  
OTTAWA, CANADA

**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.

Corporate Secretary  
SIDNEY W. BUTLER

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

\*ROBERT A. BOYD, Eng.  
Montreal, Quebec

\*JOSEPH BOURBEAU, Eng.  
Montreal, Quebec  
Chairman  
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

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



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, 1981 and the statement 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, 1981 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 5, 1982





# CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

## Management Report to the Shareholders

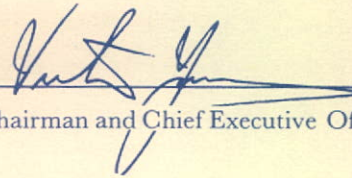
The financial statements of the Company have been prepared by Management in accordance with Canadian generally accepted accounting principles consistently applied and including information available up to February 5, 1982. The integrity and objectivity of the data in these financial statements, including 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.

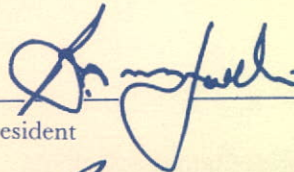
The independent auditors of the Company provide an objective, independent review of Management's discharge of its responsibilities as they relate to the fairness of reported operating results and the financial condition of the Company in accordance with generally accepted accounting principles.

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.



Chairman and Chief Executive Officer



President



Vice-President Finance and  
Chief Financial Officer

St. John's, Newfoundland  
Canada

February 5, 1982



# CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

## Balance Sheet December 31, 1981 with comparative figures for 1980

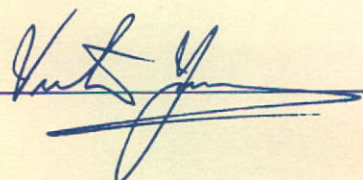
	Assets	
	1981 (000)	1980 (000)
Fixed assets (Notes 2 and 9(b))		
Property, plant and equipment .....	\$ 776,813	789,076
Current assets		
Cash and short-term deposits .....	40,952	34,747
Receivables and accrued interest .....	15,056	15,972
Due from affiliates .....	259	4,553
Supplies and prepaid expenses .....	<u>5,297</u>	<u>4,124</u>
	61,564	59,396
Investment in Twin Falls Power Corporation Limited (Note 3) .....	2,987	2,923
Unamortized debt discount and financing expenses .....	<u>5,480</u>	<u>5,754</u>
	<u>\$ 846,844</u>	<u>857,149</u>

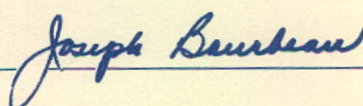
### Liabilities and Shareholders' Equity

	1981 (000)	1980 (000)
Long-term debt (Notes 4 and 9(b)) . . . . .	\$ 579,796	597,193
<b>Current liabilities</b>		
Accounts payable and accrued liabilities . . . . .	4,673	4,741
Royalty and rental due to the Province of Newfoundland (Note 9(a)) . . . . .	5,892	6,068
Long-term debt due within one year . . . . .	<u>17,500</u>	<u>17,500</u>
	28,065	28,309
<b>Shareholders' equity</b>		
Share capital (Note 5) . . . . .	82,900	82,900
Retained earnings (Note 6) . . . . .	<u>156,083</u>	<u>148,747</u>
	238,983	231,647
	<u>\$ 846,844</u>	<u>857,149</u>

See accompanying notes

On behalf of the Board:

Signed  Director

Signed  Director



# CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

## Statement of Income and Retained Earnings Year ended December 31, 1981 with comparative figures for 1980

	1981 (000)	1980 (000)
Revenue		
Sales of power (Note 7) . . . . .	\$ 101,077	100,434
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 3) . . . . .	<u>1,002</u>	<u>987</u>
Total revenue . . . . .	<u>102,814</u>	<u>102,156</u>
Expenses		
Operating costs . . . . .	15,095	13,118
Horsepower royalty and Newfoundland rental (Note 9(a)) . . . . .	5,874	6,068
Interest (Note 8) . . . . .	25,960	30,295
Depreciation . . . . .	<u>13,237</u>	<u>13,213</u>
Total expenses . . . . .	<u>60,166</u>	<u>62,694</u>
Net income for the year . . . . .	42,648	39,462
Retained earnings at beginning of year . . . . .	<u>148,747</u>	<u>136,330</u>
	191,395	175,792
Dividends (Note 6) . . . . .	<u>35,312</u>	<u>27,045</u>
Retained earnings at end of year . . . . .	<u>\$ 156,083</u>	<u>148,747</u>

See accompanying notes

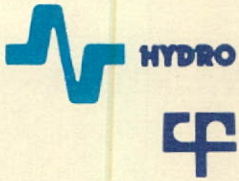


# CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

## Statement of Changes in Financial Position Year ended December 31, 1981 with comparative figures for 1980

	1981 (000)	1980 (000)
Funds provided		
From operations		
Net income . . . . .	\$ 42,648	39,462
Add (deduct) items not requiring (providing) working capital		
Amortization of debt discount and financing expenses . . . . .	274	274
Depreciation . . . . .	13,237	13,213
Equity in net income of Twin Falls Power Corporation Limited for the year . . . . .	<u>(1,002)</u>	<u>(987)</u>
Funds provided from operations . . . . .	55,157	51,962
Dividends from Twin Falls Power Corporation Limited . . . . .	<u>938</u>	<u>1,012</u>
Total funds provided. . . . .	<u>56,095</u>	<u>52,974</u>
Funds applied		
Additions to fixed assets . . . . .	974	2,129
Long-term debt becoming current . . . . .	17,397	17,716
Dividends . . . . .	<u>35,312</u>	<u>27,045</u>
Total funds applied . . . . .	<u>53,683</u>	<u>46,890</u>
Increase in working capital . . . . .	2,412	6,084
Working capital at beginning of year . . . . .	<u>31,087</u>	<u>25,003</u>
Working capital at end of year . . . . .	<u>\$ 33,499</u>	<u>31,087</u>

*See accompanying notes*



# CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

## Notes to Financial Statements December 31, 1981

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 power 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 Government of Newfoundland ("Government") 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 9(b)(i)). On December 17, 1980, The Upper Churchill Water Rights Reversion Act ("Act") was enacted (see Note 9(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

The accounts in foreign currencies are stated in Canadian dollars on the following bases:

- (a) Current assets and current liabilities, exclusive of current portions of long-term debt, at the rate of exchange prevailing at the balance sheet date.
- (b) Long-term debt at the proceeds realized in Canadian dollars. No recognition is given in the accounts to unrealized gains or losses.
- (c) All other assets and any related depreciation at rates in effect at the time of each transaction.
- (d) Gains or losses arising on the translation or conversion of foreign currencies are included with interest in the statement of income.

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*

	1981 (000)	1980 (000)
Property, plant and equipment, at cost . . . . .	\$ 883,042	882,068
Less accumulated depreciation . . . . .	<u>106,229</u>	<u>92,992</u>
	<u>\$ 776,813</u>	<u>789,076</u>

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

3. *Investment in Twin Falls*

	1981 (000)	1980 (000)
Shares, at cost . . . . .	\$ 2,500	2,500
Equity in retained earnings		
at beginning of year . . . . .	\$ 423	448
Equity in net income		
for the year . . . . .	<u>1,002</u>	<u>987</u>
	1,425	1,435
Dividends for the year . . . . .	<u>938</u>	<u>423</u>
	<u>\$ 2,987</u>	<u>2,923</u>

#### 4. Long-Term Debt

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

	1981		1980	
	(000)	(U.S. 000)	(000)	(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 . . . . .	\$ 513,277	500,000	513,277	500,000
Retired. . . . .	<u>56,555</u>	<u>55,093</u>	<u>42,479</u>	<u>41,380</u>
Outstanding at December 31 . . . . .	456,722	444,907	470,798	458,620
Due within one year . . . . .	<u>14,192</u>	<u>13,825</u>	<u>14,160</u>	<u>13,794</u>
Long-term debt . . . . .	<u>442,530</u>	<u>431,082</u>	<u>456,638</u>	<u>444,826</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>5,466</u>		<u>4,106</u>	
Outstanding at December 31 . . . . .	44,534		45,894	
Due within one year . . . . .	<u>1,388</u>		<u>1,379</u>	
Long-term debt . . . . .	<u>43,146</u>		<u>44,515</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>3,960</u>		<u>2,000</u>	
Outstanding at December 31 . . . . .	96,040		98,000	
Due within one year . . . . .	<u>1,920</u>		<u>1,960</u>	
Long-term debt . . . . .	<u>94,120</u>		<u>96,040</u>	
Total long-term debt . . . . .	<u>\$ 579,796</u>		<u>597,193</u>	

#### First Mortgage Bonds

The First Mortgage Bonds Series A are carried in the accounts at the proceeds realized in Canadian Dollars. The Series A and Series B bonds are repayable in fixed semi-annual and in contingent annual sinking fund instalments which commenced June 1978.

#### 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 \$17,500,000 in each of the years 1982 to 1986 inclusive.

Based on the exchange rates in effect at December 31, 1981 the approximate amount required to discharge U.S. dollar debt obligations recorded in the accounts in Canadian dollars as \$456,722,000 after giving effect to foreign exchange cost sharing arrangements provided for in the Power Contract, would be \$470,000,000.

## 5. Share Capital

The share capital of Churchill Falls as at December 31, 1981 and 1980 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 with a par value of \$1 each		
Authorized, issued and fully paid . . . . .	3	—

Additional shares cannot be issued without 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.

## 6. 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, 1981 the amount of retained earnings available for cash dividends was \$7,730,000 (1980 - \$7,991,000). Subsequent to December 31, 1981 the Directors declared a dividend on the common shares amounting to \$7,095,599, and a dividend on the Class A preferred share amounting to \$299,000.

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, 1981 such deferred income taxes amounted to approximately \$11,370,000 (1980 - \$14,600,000).

At December 31, 1981 \$2,500,000 (1980 - \$1,900,000) of the retained earnings has been appropriated as a reserve for self insurance.

## 7. Sales of Power

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. As a result power sales revenue and interest income have been increased for the period May, 1972 to December, 1981 by \$3,304,000 and \$1,047,000 respectively.

## 8. Interest

Churchill Falls recovers the difference between interest calculated at the rates prescribed 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:

	1981 (000)		1980 (000)
Gross interest . . . . .	\$ 54,884		54,939
Less: Interest income . . . . .	\$ 9,022	5,664	
Recovered from power customers . . . . .	<u>20,176</u>	<u>19,254</u>	<u>24,918</u>
Net interest expense . . . . .	25,686		30,021
Amortization of debt discount and financing expenses . . . . .	<u>274</u>		<u>274</u>
	\$ <u>25,960</u>		<u>30,295</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.

## 9. 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) A request was made by the Government 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 is now in progress. It is not possible at this time to indicate the outcome of this legal proceeding.
- (ii) On November 21, 1980, the Government introduced in the Legislature a Bill entitled "The Upper Churchill Water Rights Reversion Act" ("Act"). The Government stated that the purpose of this Act is to repeal the Lease which granted Churchill Falls the right to develop the Upper Churchill River. While the Act received Royal Assent on December 17, 1980, it has not yet been proclaimed into force. The Government referred the Act to the Newfoundland Supreme Court, Court of Appeal ("Reference") for an opinion on its constitutional validity. The Province of Quebec, Hydro-Quebec, Churchill Falls and trustees of the bondholders of Churchill Falls intervened in the Reference to contest the validity of the Act. A hearing with respect to the issues involved concluded on October 23, 1981 and, at that time, the Court reserved Judgement. The Government has stated that the legislation will not be proclaimed into force until all rights of appeal relating to the Reference have been exhausted by the affected parties (including appeals to the Supreme Court of Canada).

If the Act is proclaimed, the rights granted to Churchill Falls under the Lease will be rescinded and the hydro-electric works attached to the land held under the Lease will revert in Her Majesty in Right of the Province of Newfoundland. Thereafter Churchill Falls will not have any rights under the Lease nor will it own the hydro-electric works attached to the land and consequently will be unable to use the water of the Upper Churchill basin to generate electricity for export from the Province of Newfoundland or for any other purpose.

The Act provides for the payment of all indebtedness secured by way of mortgage, lien, debenture or other incumbrance against the rights, privileges, liberties or interests referred to in the Lease. The Act also provides that the shareholders may elect to be compensated for any reduction in the value of their common shares subject to the conditions contained in the Act. It is the Government's stated intention that the Act will not be proclaimed into force until all arrangements have been made by it for the payment in full of all the secured indebtedness of Churchill Falls.

- (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 in good working order Twin Falls plant and equipment.

The Act states that "all rights, privileges, liberties and interests vested in, conferring on or accruing to Twinco ("Twin Falls") under the Statutory Lease and any sublease or license, as amended, executed pursuant thereto do not cease to vest, confer or accrue and do not revert in Her Majesty but continue on and after the commencement of this Act in all respects as though this Act had not been passed, except that in all respects and for all purposes CFLCo ("Churchill Falls") is replaced as lessor or licensor to Twinco by Her Majesty". Twin Falls is therefore assured that its rights to use the waters of the Unknown River to generate electricity at the Twin Falls plant are protected notwithstanding the loss of rights by Churchill Falls to use the water of the Upper Churchill basin to generate electricity.

- 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.

#### 10. *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 — 1981	7	\$ 8,800
— 1980	6	9,200
Officers — 1981	7 (Directors — 2)	223,400
— 1980	5 (Directors — 2)	130,000

In 1981 one officer and three directors of Churchill Falls served without remuneration. At December 31, 1981 there were six directors and seven officers.



# Twin Falls Power Corporation Limited

## OFFICERS

President

BRIAN C. McGRATH, P. Eng.

Vice-President, Finance

R. ANDREW GRANT, C.A.

Corporate Secretary

SIDNEY W. BUTLER

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.

\*Resigned December 31, 1981

## DIRECTORS

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

Montreal, Quebec

General Solicitor

Pickands, Mather & Company

J.H. FATUM

Cleveland, Ohio, U.S.A.

Manager - Energy

Pickands, Mather & Company

RICHARD GEREN

Sept Iles, Quebec

Executive Vice-President

Iron Ore Company of Canada

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

\*LAWRENCE A. HALSEY

Montreal, Quebec

Assistant Secretary

Iron Ore Company of Canada

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

St. John's, Newfoundland

Vice-President, Operations

Newfoundland and Labrador Hydro

GARLAND W. JENNINGS

St. John's, Newfoundland

Manager, Power Distribution Districts

Newfoundland and Labrador Hydro

BRIAN C. McGRATH, P. Eng.

St. John's, Newfoundland

President

Churchill Falls (Labrador) Corporation Limited

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, 1981 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, 1981 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 5, 1982

# Twin Falls Power Corporation Limited

**Balance Sheet December 31, 1981**  
with comparative figures for 1980

	<b>Assets</b>	
	1981 (000)	1980 (000)
Fixed assets (Notes 2 and 3)		
Plant and equipment .....	\$ 33,083	34,337
Current assets		
Cash and short-term deposits .....	8,629	7,830
Receivables - trade .....	1,019	1,235
Due from affiliate .....	<u>—</u>	<u>3,200</u>
	9,648	12,265
	<u>\$ 42,731</u>	<u>46,602</u>



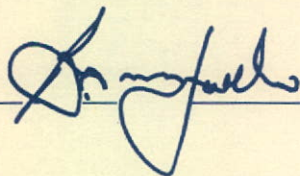
### Liabilities and Shareholders' Equity

	1981 (000)	1980 (000)
Long-term debt (Note 3) .....	\$ 14,229	17,335
Current liabilities		
Accounts payable and accrued liabilities .....	24	53
Due to affiliate .....	174	734
Income taxes .....	441	328
Long-term debt due within one year (Note 3) .....	<u>3,106</u>	<u>2,940</u>
	3,745	4,055
Deferred income taxes .....	15,796	16,445
Shareholders' equity		
Share capital (Note 4) .....	7,500	7,500
Retained earnings (Note 3) .....	<u>1,461</u>	<u>1,267</u>
	8,961	8,767
	<u>\$ 42,731</u>	<u>46,602</u>

See accompanying notes

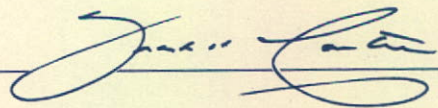
On behalf of the Board:

Signed



Director

Signed



Director

# Twin Falls Power Corporation Limited

## Statement of Income and Retained Earnings Year ended December 31, 1981 with comparative figures for 1980

	1981 (000)	1980 (000)
Revenue		
Sales of power . . . . .	\$ <u>9,740</u>	10,070
Expenses		
Cost of power (Note 5) . . . . .	2,177	2,490
Interest on long-term debt . . . . .	1,109	1,267
Depreciation . . . . .	<u>1,969</u>	<u>1,946</u>
Total expenses . . . . .	<u>5,255</u>	<u>5,703</u>
	4,485	4,367
Interest income . . . . .	<u>1,783</u>	<u>1,626</u>
Income before income taxes . . . . .	<u>6,268</u>	<u>5,993</u>
Income taxes - Current . . . . .	3,911	3,676
- Deferred . . . . .	<u>(649)</u>	<u>(645)</u>
	<u>3,262</u>	<u>3,031</u>
Net income for the year . . . . .	3,006	2,962
Retained earnings at beginning of year . . . . .	<u>1,267</u>	<u>1,343</u>
	4,273	4,305
Dividends (Note 3) . . . . .	<u>2,812</u>	<u>3,038</u>
Retained earnings at end of year . . . . .	<u>\$ 1,461</u>	<u>1,267</u>

*See accompanying notes*

# Twin Falls Power Corporation Limited

## Statement of Changes in Financial Position Year ended December 31, 1981 with comparative figures for 1980

	1981 (000)	1980 (000)
Funds provided		
Net income . . . . .	\$ 3,006	2,962
Add (deduct) items not requiring (providing) working capital		
Depreciation . . . . .	1,969	1,946
Deferred income taxes . . . . .	<u>(649)</u>	<u>(645)</u>
Total funds provided . . . . .	<u>4,326</u>	<u>4,263</u>
Funds applied		
Long-term debt becoming current . . . . .	3,106	2,940
Additions to fixed assets . . . . .	715	542
Dividends . . . . .	<u>2,812</u>	<u>3,038</u>
Total funds applied . . . . .	<u>6,633</u>	<u>6,520</u>
Decrease in working capital . . . . .	(2,307)	(2,257)
Working capital at beginning of year . . . . .	<u>8,210</u>	<u>10,467</u>
Working capital at end of year . . . . .	<u>\$ 5,903</u>	<u>8,210</u>

See accompanying notes

# Twin Falls Power Corporation Limited

## Notes to Financial Statements December 31, 1981

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

All accounts in foreign currencies are stated in Canadian dollars at the exchange rate in effect at the balance sheet date except for those accounts relating to the First Mortgage Bonds which are carried in the accounts at the proceeds realized in Canadian dollars.

### 2. *Fixed Assets*

	1981 (000)	1980 (000)
Plant and equipment, at cost . . . . .	\$ 66,133	65,418
Less accumulated depreciation . . . . .	<u>33,050</u>	<u>31,081</u>
	<u>\$ 33,083</u>	<u>34,337</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:

	1981		1980	
	(000)	(U.S. 000)	(000)	(U.S. 000)
<b>Series A</b>				
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>28,881</u>	<u>27,123</u>	<u>26,364</u>	<u>24,759</u>
Outstanding at December 31 .....	13,180	12,377	15,697	14,741
Due within one year .....	<u>2,657</u>	<u>2,495</u>	<u>2,517</u>	<u>2,364</u>
Long-term debt .....	<u>10,523</u>	<u>9,882</u>	<u>13,180</u>	<u>12,377</u>
<b>Series B</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>4,471</u>	<u>4,146</u>	<u>4,048</u>	<u>3,754</u>
Outstanding at December 31 .....	4,155	3,854	4,578	4,246
Due within one year .....	<u>449</u>	<u>417</u>	<u>423</u>	<u>392</u>
Long-term debt .....	<u>3,706</u>	<u>3,437</u>	<u>4,155</u>	<u>3,854</u>
Total long-term debt .....	\$ <u>14,229</u>	<u>13,319</u>	<u>17,335</u>	<u>16,231</u>

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.

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

	(000)	(U.S. 000)
1982 .....	\$ 3,106	\$ 2,912
1983 .....	3,284	3,078
1984 .....	3,471	3,254
1985 .....	3,666	3,437
1986 .....	2,204	2,063

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 of the par value of \$10 each.
- 1,000,000 Class B shares of the par value of \$10 each.

##### 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.

On November 21, 1980, the Government of Newfoundland ("Government") introduced in the Legislature a Bill entitled "The Upper Churchill Water Rights Reversion Act" ("Act"). The Government stated that the purpose of the Act is to repeal the Churchill Falls (Labrador) Corporation Limited (Lease) Act, 1961 ("Lease") which granted Churchill Falls the right to develop the Upper Churchill River. While the Act received Royal Assent on December 17, 1980, it has not yet been proclaimed into force. The Government referred the Act to the Newfoundland Supreme Court, Court of Appeal ("Reference") for an opinion on its constitutional validity. The Province of Quebec, Hydro-Quebec, Churchill Falls, and trustees of the bondholders of Churchill Falls intervened in the Reference to contest the validity of the Act. A hearing with respect to the issues involved concluded on October 23, 1981 and, at that time, the Court reserved Judgement. The Government has stated that the legislation will not be proclaimed into force until all rights of appeal relating to the Reference have been exhausted by the affected parties (including appeals to the Supreme Court of Canada).

If the Act is proclaimed, the rights given to Churchill Falls under the Lease will be rescinded and the hydro-electric works attached to the land held under the Lease will revert in Her Majesty in Right of the Province of Newfoundland. Thereafter, Churchill Falls will not have any rights under the Lease nor will it own the hydro-electric works attached to the land and consequently will be unable to use the water of the Upper Churchill basin to generate electricity for export from the Province of Newfoundland or for any other purpose.

The Act states that "all rights, privileges, liberties and interests vested in, conferring on or accruing to Twinco ("Twin Falls") under the Statutory Lease and any sublease or license, as amended, executed pursuant thereto do not cease to vest, confer or accrue and do not revert in Her Majesty but continue on and after the commencement of

this Act in all respects as though this Act had not been passed, except that in all respects and for all purposes CFLCo ("Churchill Falls") is replaced as lessor or licensor to Twinco by Her Majesty". Twin Falls is therefore assured that its rights to use the waters of the Unknown River to generate electricity at the Twin Falls plant are protected notwithstanding the loss of rights by Churchill Falls.

#### 6. *Directors and Officers*

During the year Twin Falls had ten directors and six officers including two who were both directors and officers. In 1981 and 1980 no remuneration was paid by Twin Falls to its directors and officers. At December 31, 1981 there were nine directors and six officers.







