



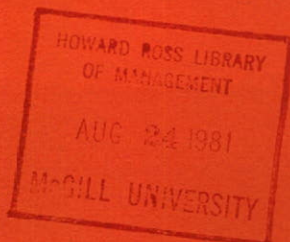
**CHURCHILL FALLS (LABRADOR)
CORPORATION LIMITED**

and

Twin Falls Power Corporation Limited

**Auditors' Report
and
Financial Statements**

for the year ended
December 31, 1980





CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

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

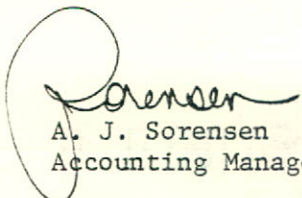
August 18, 1981

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

Dear Ms. Lawson:

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, 1980.

Yours very truly


A. J. Sorensen
Accounting Manager
AJS/cc

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.

Corporate Secretary
SIDNEY W. BUTLER

Controller and Chief Financial Officer
R. ANDREW GRANT, C.A.

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

DIRECTORS

* ROBERT A. BOYD, Eng.
Montreal, Quebec
President
Hydro-Quebec

* ROLAND GIROUX
Montreal, Quebec
Chairman of the Board
Consolidated Bathurst Inc.

* 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, 1980 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, 1980 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 6, 1981



CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

Balance Sheet December 31, 1980 with comparative figures for 1979

Assets	1980 (000)	1979 (000)
Fixed assets (Notes 2 and 9(b))		
Property, plant and equipment	\$ 789,076	800,160
Current assets		
Cash and short-term deposits	34,747	31,185
Receivables and accrued interest	15,972	16,187
Due from affiliates	4,553	338
Supplies and prepaid expenses	<u>4,124</u>	<u>4,613</u>
	59,396	52,323
Investment in Twin Falls Power Corporation Limited (Note 3)	2,923	2,948
Unamortized debt discount and financing expenses	5,754	6,028
	<u>\$ 857,149</u>	<u>861,459</u>

Liabilities and Shareholders' Equity

	1980 (000)	1979 (000)
Long-term debt (Notes 4 and 9(b))	\$ 597,193	614,909
Current liabilities		
Accounts payable and accrued liabilities	4,741	5,771
Royalty and rental due to the Province of Newfoundland (Note 9(a))	6,068	5,549
Long-term debt due within one year	<u>17,500</u>	<u>16,000</u>
	28,309	27,320
Shareholders' equity		
Share capital (Note 5)	82,900	82,900
Retained earnings (Note 6)	<u>148,747</u>	<u>136,330</u>
	231,647	219,236
	<u>\$ 857,149</u>	<u>861,459</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, 1980

with comparative figures for 1979

	1980 (000)	1979 (000)
Revenue		
Sales of power (Note 7)	\$ 100,434	97,278
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>987</u>	<u>991</u>
Total revenue	<u>102,156</u>	<u>99,004</u>
Expenses		
Operation and corporate	13,118	13,250
Horsepower royalty and Newfoundland rental (Note 9(a))	6,068	5,549
Interest (Note 8)	30,295	32,072
Depreciation	<u>13,213</u>	<u>13,156</u>
Total expenses	<u>62,694</u>	<u>64,027</u>
Net income for the year	39,462	34,977
Retained earnings at beginning of year	<u>136,330</u>	<u>133,425</u>
Dividends (Note 6)	175,792	168,402
	<u>27,045</u>	<u>32,072</u>
Retained earnings at end of year	<u>\$ 148,747</u>	<u>136,330</u>

See accompanying notes



CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

Statement of Changes in Financial Position Year ended December 31, 1980 with comparative figures for 1979

	1980 (000)	1979 (000)
Funds provided		
From operations		
Net income	\$ 39,462	34,977
Add (deduct) items not requiring (providing) working capital		
Amortization of debt discount and financing expenses	274	275
Depreciation	13,213	13,156
Equity in net income of Twin Falls Power Corporation Limited for the year	<u>(987)</u>	<u>(991)</u>
Funds provided from operations	51,962	47,417
Dividends from Twin Falls Power Corporation Limited	<u>1,012</u>	<u>912</u>
Total funds provided	<u>52,974</u>	<u>48,329</u>
Funds applied		
Additions to fixed assets	2,129	4,901
Long-term debt becoming current	17,716	14,251
Dividends	<u>27,045</u>	<u>32,072</u>
Total funds applied	<u>46,890</u>	<u>51,224</u>
Increase (decrease) in working capital	6,084	(2,895)
Working capital at beginning of year	<u>25,003</u>	<u>27,898</u>
Working capital at end of year	<u>\$ 31,087</u>	<u>25,003</u>

See accompanying notes



CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

Notes to Financial Statements December 31, 1980

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 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. The Government stated that this action was taken because of the lack of satisfactory progress in relation to its earlier request for power under the lease (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

	1980 (000)	1979 (000)
Property, plant and equipment, at cost	\$ 882,068	879,944
Less accumulated depreciation	<u>92,992</u>	<u>79,784</u>
	<u>\$ 789,076</u>	<u>800,160</u>

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

3. Investment in Twin Falls

	1980 (000)	1979 (000)
Shares, at cost	\$ 2,500	2,500
Equity in retained earnings		
at beginning of year	\$ 448	369
Equity in net income		
for the year	<u>987</u>	<u>991</u>
	1,435	1,360
Dividends for the year	<u>1,012</u>	<u>912</u>
	<u>\$ 2,923</u>	<u>2,948</u>

4. Long-Term Debt

Details of long-term debt at December 31 after deduction of amounts due within one year are as follows:

	1980 (000)	1979 (000)
First Mortgage Bonds		
7 3/4% Series A due December 15, 2007		
\$444,826,000 U.S. (1979 - \$458,800,000 U.S.)	\$ 456,638	471,006
7 7/8% Series B due December 15, 2007.	44,515	45,903
General Mortgage Bonds		
7 1/2% due three years after latest		
maturity of any First Mortgage Bonds	<u>96,040</u>	<u>98,000</u>
	<u>\$ 597,193</u>	<u>614,909</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 1981 to 1985 inclusive.

Based on the exchange rates in effect at December 31, 1980 the approximate amount required to discharge U.S. dollar debt obligations recorded in the accounts in Canadian dollars as \$470,800,000 after giving effect to foreign exchange cost sharing arrangements provided for in the Power Contract, would be \$485,000,000.

5. Share Capital

The share capital of Churchill Falls as at December 31, 1980 and 1979 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	—

There are restrictions on the issue of additional shares without the approval of 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 of Newfoundland 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, 1980 the amount of retained earnings available for cash dividends was \$7,991,000 (1979 - \$3,494,000). Subsequent to December 31, 1980 the Directors declared a dividend on the common shares amounting to \$7,446,000, and a dividend on the Class A preferred share amounting to \$263,000.

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, 1980 such deferred income taxes amounted to approximately \$14,600,000 (1979 - \$17,900,000).

At December 31, 1980 \$1,900,000 (1979 - \$1,300,000) 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 an estimate of the Final Capital Cost of the Project, as defined, and are subject to adjustment when such cost is determined. Pursuant to the Power Contract a joint reference has been made by Hydro-Quebec and Churchill Falls to an independent auditor to determine the final capital cost. Although a determination has not been made, it is not anticipated that such adjustment will result in a decrease in recorded sales.

8. Rights of Churchill Falls under the Power Contract

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:

	1980 (000)	1979 (000)
Gross interest	\$ <u>54,939</u>	<u>55,807</u>
Less: Interest income	5,664	4,647
Recovered from power customers	<u>19,254</u>	<u>19,363</u>
	<u>24,918</u>	<u>24,010</u>
Net interest expense	30,021	31,797
Amortization of debt discount and financing expenses	<u>274</u>	<u>275</u>
	<u>\$ 30,295</u>	<u>32,072</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 of Newfoundland 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. This action has not yet come to trial and it is not possible at this time to indicate the outcome of this legal proceeding.
- (ii) The Government of Newfoundland introduced in the Legislature, on November 21, 1980, a bill entitled "The Upper Churchill Water Rights Reversion Act" ("Act"). The Government stated that this bill was introduced because of the lack of satisfactory progress in relation to its earlier request and that the purpose of the bill is to repeal the lease. This bill received Royal Assent on December 17, 1980 but has not yet been proclaimed into force. The Government also stated that this Act will be referred to the Court of Appeal of the Province of Newfoundland and thereafter to the Supreme Court of Canada to test its validity prior to being proclaimed into force.

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 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.

The Board of Directors of Churchill Falls has resolved that an intervention will be made to the courts to contest the validity of this legislation.

- (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 Water Rights Reversion 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 Upper Churchill 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 — 1980	6	\$ 9,200
— 1979	7	8,000
Officers — 1980	5 (Directors - 2)	130,000
— 1979	7 (Directors - 3)	184,000

In 1980 one officer and three directors of Churchill Falls served without remuneration. At December 31, 1980 there were six directors and five officers.

Twin Falls Power Corporation Limited

Twin Falls Power Corporation Limited

OFFICERS

President

BRIAN C. McGRATH, P. Eng.

Vice-President, Finance

R. ANDREW GRANT, C.A.

Secretary

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

Treasurer

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

DIRECTORS

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

Montreal, Quebec

General Solicitor

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

Controller 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.

St. John's, Newfoundland

Vice-President, Operations

Newfoundland and Labrador Hydro

GARLAND W. JENNINGS

Churchill Falls, Labrador, Newfoundland

Manager of Operations

Churchill Falls (Labrador) Corporation Limited

BRIAN C. McGRATH, P. Eng.

St. John's, Newfoundland

President

Churchill Falls (Labrador) Corporation Limited

HENRY P. WHALEY

Cleveland, Ohio, U.S.A.

Vice-President, Operations

Pickands, Mather & Company

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, 1980 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, 1980 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 6, 1981

Twin Falls Power Corporation Limited

Balance Sheet December 31, 1980
with comparative figures for 1979

Assets	1980 (000)	1979 (000)
Fixed assets (Notes 2 and 3)		
Plant and equipment	\$ 34,337	35,741
Current assets		
Cash and short-term deposits	7,830	13,231
Receivables - trade	1,235	535
Due from affiliate	<u>3,200</u>	<u>—</u>
	12,265	13,766
	<u>\$ 46,602</u>	<u>49,507</u>

Twin Falls Power Corporation Limited

Statement of Income and Retained Earnings

Year ended December 31, 1980

with comparative figures for 1979

	1980 (000)	1979 (000)
Revenue		
Sales of power	\$ <u>10,070</u>	<u>9,414</u>
Expenses		
Cost of power (Note 5)	2,490	1,872
Interest on long-term debt	1,267	1,417
Depreciation	<u>1,946</u>	<u>1,939</u>
Total expenses	<u>5,703</u>	<u>5,228</u>
	4,367	4,186
Interest income	<u>1,626</u>	<u>1,562</u>
Income before income taxes	<u>5,993</u>	<u>5,748</u>
Income taxes - Current	3,676	3,385
- Deferred	<u>(645)</u>	<u>(609)</u>
	<u>3,031</u>	<u>2,776</u>
Net income for the year	2,962	2,972
Retained earnings at beginning of year	<u>1,343</u>	<u>1,109</u>
	4,305	4,081
Dividends (Note 3)	<u>3,038</u>	<u>2,738</u>
Retained earnings at end of year	<u>\$ 1,267</u>	<u>1,343</u>

See accompanying notes

Twin Falls Power Corporation Limited

Statement of Changes in Financial Position Year ended December 31, 1980

with comparative figures for 1979

	1980 (000)	1979 (000)
Funds provided		
Net income	\$ 2,962	2,972
Add (deduct) items not requiring (providing) working capital		
Depreciation	1,946	1,939
Deferred income taxes	<u>(645)</u>	<u>(609)</u>
Total funds provided	<u>4,263</u>	<u>4,302</u>
Funds applied		
Long-term debt becoming current	2,940	2,782
Additions to fixed assets	542	72
Dividends	<u>3,038</u>	<u>2,738</u>
Total funds applied	<u>6,520</u>	<u>5,592</u>
Decrease in working capital	(2,257)	(1,290)
Working capital at beginning of year	<u>10,467</u>	<u>11,757</u>
Working capital at end of year	<u>\$ 8,210</u>	<u>10,467</u>

See accompanying notes

Twin Falls Power Corporation Limited

Notes to Financial Statements December 31, 1980

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*

	1980 (000)	1979 (000)
Plant and equipment, at cost	\$ 65,418	64,876
Less accumulated depreciation	<u>31,081</u>	<u>29,135</u>
	<u>\$ 34,337</u>	<u>35,741</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:

	<u>1980</u>		<u>1979</u>	
	(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	<u>42,061</u>	<u>39,500</u>	<u>42,061</u>	<u>39,500</u>
Retired	<u>26,364</u>	<u>24,759</u>	<u>23,980</u>	<u>22,520</u>
Outstanding at December 31	<u>15,697</u>	<u>14,741</u>	<u>18,081</u>	<u>16,980</u>
Due within one year	<u>2,517</u>	<u>2,364</u>	<u>2,384</u>	<u>2,239</u>
Long-term debt	<u>13,180</u>	<u>12,377</u>	<u>15,697</u>	<u>14,741</u>
Series B				
Authorized	<u>\$10,783</u>	<u>10,000</u>	<u>10,783</u>	<u>10,000</u>
Issued	<u>8,626</u>	<u>8,000</u>	<u>8,626</u>	<u>8,000</u>
Retired	<u>4,048</u>	<u>3,754</u>	<u>3,650</u>	<u>3,385</u>
Outstanding at December 31	<u>4,578</u>	<u>4,246</u>	<u>4,976</u>	<u>4,615</u>
Due within one year	<u>423</u>	<u>392</u>	<u>398</u>	<u>369</u>
Long-term debt	<u>4,155</u>	<u>3,854</u>	<u>4,578</u>	<u>4,246</u>
Total long-term debt	<u>\$17,335</u>	<u>16,231</u>	<u>20,275</u>	<u>18,987</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, in U.S. dollars, of First Mortgage Bonds over the next five years are:

1981	\$ 2,756,000
1982	2,912,000
1983	3,078,000
1984	3,254,000
1985	3,437,000

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.

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 5,000,000

\$7,500,000

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.

The Government of Newfoundland introduced in the Legislature on November 21, 1980 a bill entitled "The Upper Churchill Water Rights Reversion Act" ("Act"). The Government stated that this bill was introduced because of the lack of satisfactory progress in relation to its earlier request to Churchill Falls for 800 megawatts of power pursuant to the Churchill Falls (Labrador) Corporation Limited (Lease) Act, 1961 ("lease"). The stated purpose of the Act is to repeal the lease. This bill received Royal Assent December 17, 1980 but has not yet been proclaimed into force. The Government also stated that this Act will be referred to the Court of Appeal of the Province of Newfoundland and thereafter to the Supreme Court of Canada to test its validity prior to being proclaimed into force. Assuming confirmation of the law as enacted, the Government may proclaim this Act into force at any time thereafter.

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 Upper Churchill to generate electricity in 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 four officers including two who were both directors and officers. In 1980 and 1979 no remuneration was paid by Twin Falls to its directors and officers. At December 31, 1980 there were nine directors and four officers.

