



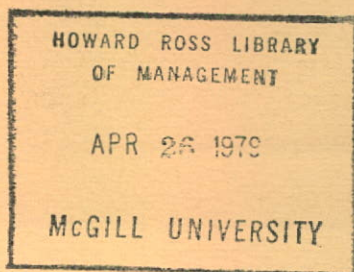
**CHURCHILL FALLS (LABRADOR)  
CORPORATION LIMITED**

and

Twin Falls Power Corporation Limited

Financial Statements

for the year ended  
December 31, 1978





**CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**

## OFFICERS

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

President and General Manager  
WALLACE S. READ, P. Eng., F. E. I. C.

Vice-President, Legal  
General Counsel and Secretary  
PIERRE G. BOURGEOU, B. A. - Pol. Sc., LL.B.

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 - Chief Executive Officer  
Hydro-Quebec

ROLAND GIROUX  
Montreal, Quebec  
Chairman  
Consolidated Bathurst Limited

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

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

WALLACE S. READ, P. Eng., F. E. I. C.  
St. John's, Newfoundland  
President and General Manager  
Churchill Falls (Labrador) Corporation Limited  
Senior 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  
Chairman and Chief Executive Officer  
Newfoundland and Labrador Hydro

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

MONTREAL OFFICE  
2020 University Street  
19th Floor  
Montreal, Quebec  
H3A 2A5

# PEAT, MARWICK, MITCHELL & CO.

CHARTERED ACCOUNTANTS

Viking Building  
Crosbie Road  
St. John's, Newfoundland  
A1B 3K3

## Auditors' Report to the Shareholders

We have examined the balance sheet of Churchill Falls (Labrador) Corporation Limited as at December 31, 1978, 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, 1978, 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 which, except for the changes in the policy on self insurance referred to in Note 1, were applied on a basis consistent with that of the preceding year.

*Peat, Marwick, Mitchell & Co*

Chartered Accountants

St. John's, Newfoundland  
Canada

February 21, 1979

# CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

## Balance Sheet December 31, 1978

with comparative figures for 1977

Assets	1978 (000)	1977 (000)
Fixed assets (Note 2)		
Property, plant and equipment .....	\$808,415	816,949
Current assets		
Cash and short-term deposits .....	32,483	44,960
Receivables and accrued interest .....	14,254	12,418
Due from affiliates .....	3,535	826
Supplies and prepaid expenses .....	<u>4,562</u>	<u>3,238</u>
	54,834	61,442
Investment in Twin Falls Power Corporation Limited (Note 3) .....	2,869	2,943
Unamortized debt discount and financing expenses .....	6,303	6,512
	<u>\$872,421</u>	<u>887,846</u>

**Liabilities and Shareholders' Equity**

	1978 (000)	1977 (000)
Long-term debt (Note 4) .....	\$629,160	642,277
<b>Current liabilities</b>		
Accounts payable and accrued liabilities .....	5,195	7,816
Royalty and rental due to the Province of Newfoundland (Note 10c) .....	5,741	5,198
Long-term debt due within one year .....	<u>16,000</u>	<u>21,000</u>
	26,936	34,014
Provision for insurance (Note 5) .....	—	3,279
<b>Shareholders' equity</b>		
Share capital (Note 6) .....	82,900	82,900
Retained earnings (Note 7) .....	<u>133,425</u>	<u>125,376</u>
	216,325	208,276
	<u><u>\$872,421</u></u>	<u><u>887,846</u></u>

*See accompanying notes*

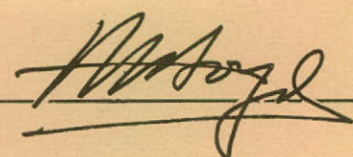
On behalf of the Board:

Signed \_\_\_\_\_



Director

Signed \_\_\_\_\_



Director

# CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

## Statement of Income and Retained Earnings Year ended December 31, 1978

with comparative figures for 1977

	1978 (000)	1977 (000)
<b>Revenue</b>		
Sales of power (Note 8) .....	\$ 98,982	95,478
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>941</u>	<u>1,004</u>
Total revenue .....	<u>100,658</u>	<u>97,217</u>
<b>Expenses</b>		
Operation and corporate costs .....	12,617	13,266
Horsepower royalty and Newfoundland rental (Note 10c) .....	5,780	5,167
Interest (Note 9) .....	34,147	34,532
Depreciation .....	<u>13,079</u>	<u>13,034</u>
Total expenses .....	<u>65,623</u>	<u>65,999</u>
Net income for the year .....	35,035	31,218
Retained earnings at beginning of year .....	125,376	109,050
Transfer of provision for insurance (Note 5) .....	<u>2,360</u>	<u>—</u>
Dividends (Note 7) .....	162,771	140,268
	<u>29,346</u>	<u>14,892</u>
Retained earnings at end of year .....	<u>\$133,425</u>	<u>125,376</u>

See accompanying notes



# CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

## Statement of Changes in Financial Position Year ended December 31, 1978

with comparative figures for 1977

	1978 (000)	1977 (000)
Funds provided		
From operations		
Net income .....	\$ 35,035	31,218
Add (deduct) items not requiring (providing) working capital		
Amortization of debt discount and financing expenses .....	273	271
Depreciation .....	12,657	13,034
Equity in net income of Twin Falls		
Power Corporation Limited for the year .....	(941)	(1,004)
Increase in provision for insurance .....	<u>—</u>	<u>499</u>
Funds provided from operations .....	47,024	44,018
Dividends from Twin Falls Power Corporation Limited .....	<u>1,015</u>	<u>725</u>
Total funds provided .....	<u>48,039</u>	<u>44,743</u>
Funds applied		
Additions to fixed assets .....	5,042	3,442
Long-term debt becoming current .....	13,117	21,000
Dividends .....	29,346	14,892
Financing expenses .....	64	3
Total funds applied .....	<u>47,569</u>	<u>39,337</u>
Increase in working capital .....	470	5,406
Working capital at beginning of year .....	<u>27,428</u>	<u>22,022</u>
Working capital at end of year .....	<u>\$ 27,898</u>	<u>27,428</u>

See accompanying notes

# CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

## Notes to Financial Statements December 31, 1978

Churchill Falls (Labrador) Corporation Limited ("Churchill Falls") incorporated under the laws of Canada has completed and commissioned a hydro-electric generating plant and related transmission facilities situated in Labrador and having a rated capacity of 5,225 megawatts ("Project"). A power contract with Quebec Hydro-Electric Commission dated May 12, 1969 ("Power Contract") provides for the sale of substantially all of the power from the Project for an initial period expiring in the year 2016 with an option of renewal for a further period of 25 years.

### 1. Summary of Significant Accounting Policies

The principal accounting policies followed by Churchill Falls are summarized hereunder. Churchill Falls is not subject to regulatory authority with respect to accounting practices and, accordingly, generally accepted accounting principles in Canada apply.

#### 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) The proceeds from disposal of fixed assets purchased for or used in the construction of the Project are credited to property, plant and equipment.
- (c) 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 to foreign currencies are included with interest in the statement of income.

#### Income Taxes

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

## Insurance

Churchill Falls has adopted the policy of designating 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. In previous years charges were made against income for self insurance; however, this policy was changed in 1978 to comply with a pronouncement by the Canadian Institute of Chartered Accountants that such a policy is not in accordance with generally accepted accounting principles. In future years Churchill Falls will charge against income losses which are not covered by insurance.

## 2. Fixed Assets

	1978 (000)	1977 (000)
Property, plant and equipment, at cost	\$875,452	871,329
Less accumulated depreciation	<u>67,037</u>	<u>54,380</u>
	<u>\$808,415</u>	<u>816,949</u>

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

## 3. Investment in Twin Falls Power Corporation Limited

	1978 (000)	1977 (000)
Shares, at cost .....	\$ 2,500	2,500
Equity in retained earnings at beginning of year .....	\$ 443	164
Equity in net income for the year .....	<u>941</u>	<u>1,004</u>
	1,384	1,168
Dividends for the year .....	<u>1,015</u>	<u>725</u>
	<u>\$ 2,869</u>	<u>2,943</u>

## 4. Long-term debt

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

	1978 (000)	1977 (000)
First Mortgage Bonds		
7¾% Series A due December 15, 2007		
\$469,700,000 U. S. (1977 \$481,600,000 U. S.) .....	\$482,178	494,141
7 7/8% Series B due December 15, 2007 .....	46,982	48,136
General Mortgage Bonds		
7½% due three years after latest maturity of any First Mortgage Bonds .....	<u>100,000</u>	<u>100,000</u>
	<u>\$629,160</u>	<u>642,277</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 commencing 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 \$16,000,000 in 1979 and \$18,000,000 in each of the years 1980 to 1983 inclusive.

Based on the exchange rates in effect at December 31, 1978 the approximate amount required to discharge U. S. dollar debt obligations recorded in the accounts in Canadian dollars as \$496,800,000, after giving effect to foreign exchange cost sharing arrangements provided for in the Power Contract, would be \$511,500,000.

## 5. Provision for Insurance

Churchill Falls has credited retained earnings with \$2,360,000 representing the transfer of a portion of the provision for self insurance. The balance of the provision which had been capitalized (\$919,000) has been credited to property, plant and equipment.

## 6. Share Capital

Common shares without nominal or par value authorized and issued as at December 31, 1978 and 1977 were:

	<u>Shares</u>	<u>Amount (000)</u>
Authorized .....	10,000,000	
Issued and fully paid .....	8,759,999	\$82,900

There are restrictions on the issue of additional shares without the approval of the holders of at least 75% of the outstanding common shares.

As a result of Churchill Falls becoming exempt from payment of income taxes, the Province of Newfoundland (Newfoundland) is deprived of revenues from income tax which would otherwise be payable. The tax exemption may also affect the portion of interest charges of Churchill Falls paid by power customers as referred to in Note 9. Additional share capital was created in order to provide a vehicle whereby, through preferred share dividends, the relative positions of Newfoundland and the power customers will be maintained as they existed prior to tax exemption.

Preferred shares (3) with a par value of \$1 each were authorized and on November 16, 1977 confirmed by Supplementary Letters Patent. During 1978 the following preferred shares were issued and fully paid:

- 1 Class A Cumulative held by Newfoundland and Labrador Hydro
- 1 Class B Redeemable Cumulative held by Hydro-Quebec
- 1 Class C Redeemable Cumulative held by Newfoundland and Labrador Hydro

Details of dividends on the preferred shares, which rank *pari passu* but ahead of dividends on common shares are as follows:

The Class A Shareholder is entitled to dividend payments to August 31, 2016. This dividend is to be calculated as the amount equal to the income taxes which would have been received by Newfoundland had Churchill Falls not become exempt from payment of income taxes.

The Class B 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 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, 1978 the amount of retained earnings available for cash dividends was \$11,180,000 (1977 \$9,767,000). Subsequent to December 31, 1978 the Directors declared dividends on the common shares amounting to \$8,322,000.

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, 1978 such deferred income taxes amounted to approximately \$21,000,000 (1977 \$24,500,000).

At December 31, 1978, \$1,400,000 (1977 - nil) of retained earnings is designated as a reserve for self insurance.

#### 8. 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. It is not anticipated that such adjustment will result in a decrease in recorded sales.

#### 9. Interest

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

	1978 (000)	1977 (000)
Gross interest .....	\$ 56,960	53,135
Less: Interest income .....	3,744	3,195
Recovered from power customers (a) .....	19,342	15,679
	<u>23,086</u>	<u>18,874</u>
Net interest expense .....	33,874	34,261
Amortization of debt discount and financing expenses .....	273	271
	<u>\$ 34,147</u>	<u>34,532</u>

- (a) 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.

## 10. Commitments and Contingencies

- (a) Proceedings claiming approximately \$7,000,000 have been instituted by Churchill Falls against contractors for damages resulting from the reduction in revenue due to premature failure of certain of the generating units.
- (b) Churchill Falls is defending a legal action instituted by Newfoundland in connection with a request by Newfoundland for the supply by Churchill Falls of 800 megawatts of power commencing in 1983. It is not possible at this time to indicate the outcome of this legal proceeding.
- (c) Under the terms of the Churchill Falls (Labrador) Corporation Limited (Lease) Act, 1961, and amendments thereto Churchill Falls has entered into a 99-year lease covering the water power potential of the Upper Churchill watershed and 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 cents per horsepower year generated, as defined.
- (d) Under the terms of a sublease with Twin Falls, expiring on December 31, 1989, with a 25-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.

## 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 — 1978	12	\$ 49,000
— 1977	12	56,000
Officers — 1978	6 (Directors - 3)	160,000
— 1977	12 (Directors - 3)	468,000

Included in officers remuneration for 1977 was \$170,000 compensation paid to four officers for loss of office.

In 1978 and 1977 two officers of Churchill Falls served without remuneration. At December 31, 1978 there were six directors and five officers.

## 12. Anti-Inflation Legislation

Churchill Falls is subject to anti-inflation legislation with respect to compensation.

## 13. Comparative Figures

Certain figures reported in 1977 have been reclassified to conform with the current year's presentation.

## 14. Management Approval

These financial statements were approved by Management on February 20, 1979.

**Twin Falls Power Corporation Limited**

# Twin Falls Power Corporation Limited

## OFFICERS

President

WALLACE S. READ, P. Eng., F. E. I. C.

Vice-President, Legal

PIERRE G. BOURGEOU, B. A. - Pol. Sc., LL.B.

Secretary

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

Controller

R. ANDREW GRANT, C. A.

Treasurer

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

## DIRECTORS

PIERRE G. BOURGEOU, B. A. - Pol. Sc., LL. B.  
Montreal, Quebec

Vice-President Legal

General Counsel and Secretary

Churchill Falls (Labrador) Corporation Limited

FRANK H. CARTER

Montreal, Quebec

General Solicitor

Pickands, Mather & Company

RICHARD GEREN

Sept Isles, 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

LAWRENCE A. HALSEY

Montreal, Quebec

Assistant Secretary

Iron Ore Company of Canada

GARLAND JENNINGS

Churchill Falls, Labrador, Newfoundland

Manager of Operations

Churchill Falls (Labrador) Corporation Limited

WALLACE S. READ, P. Eng., F. E. I. C.

St. John's, Newfoundland

President and General Manager

Churchill Falls (Labrador) Corporation Limited

RAYMOND H. P. THOM, P. Eng.

Montreal, Quebec

Professional Engineer

Rousseau, Sauve, Warren, Incorporated

HENRY P. WHALEY

Cleveland, Ohio, U. S. A.

Vice-President, Operations

Pickands, Mather & Company

HEAD OFFICE

Elizabeth Avenue

St. John's, Newfoundland

A1A 2X9



PEAT, MARWICK, MITCHELL & CO.

CHARTERED ACCOUNTANTS

Viking Building

Crosbie Road

St. John's, Newfoundland

A1B 3K3

**Auditors' Report to the Shareholders**

We have examined the balance sheet of Twin Falls Power Corporation Limited as at December 31, 1978, 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, 1978, 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 20, 1979

# Twin Falls Power Corporation Limited

## Balance Sheet December 31, 1978

with comparative figures for 1977

Assets	1978 (000)	1977 (000)
Fixed assets (Note 2)		
Plant and equipment .....	\$ 37,608	39,523
Current assets		
Cash and short-term deposits .....	13,508	16,483
Receivables - trade .....	1,007	1,374
Due from affiliate .....	1,000	—
	<u>15,515</u>	<u>17,857</u>
	<u>\$ 53,123</u>	<u>57,380</u>

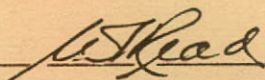
**Liabilities and Shareholders' Equity**

	1978 (000)	1977 (000)
Long-term debt (Note 3) .....	\$ 23,057	25,690
Current liabilities		
Due to affiliates .....	645	739
Income taxes .....	480	1,459
Long-term debt due within one year (Note 3) .....	<u>2,633</u>	<u>2,491</u>
	3,758	4,689
Deferred income taxes .....	17,699	18,172
Shareholders' equity		
Share capital (Note 4) .....	7,500	7,500
Retained earnings (Notes 3 and 8) .....	<u>1,109</u>	<u>1,329</u>
	<u>8,609</u>	<u>8,829</u>
	<u>\$ 53,123</u>	<u>57,380</u>

*See accompanying notes*

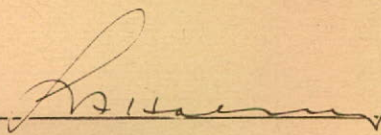
On behalf of the Board

Signed



Director

Signed



Director

# Twin Falls Power Corporation Limited

## Statement of Income and Retained Earnings Year ended December 31, 1978

with comparative figures for 1977

	1978 (000)	1977 (000)
Revenue		
Sales of power .....	\$ <u>9,385</u>	<u>9,412</u>
Expenses		
Cost of power (Note 5) .....	1,846	1,874
Interest on long-term debt .....	1,558	1,692
Depreciation .....	<u>1,937</u>	<u>1,936</u>
Total Expenses .....	<u>5,341</u>	<u>5,502</u>
Income before the following items .....	4,044	3,910
Interest income .....	<u>1,325</u>	<u>1,380</u>
	5,369	5,290
Income taxes .....	<u>2,544</u>	<u>2,278</u>
Net income for the year .....	2,825	3,012
Retained earnings at beginning of year .....	<u>1,329</u>	<u>492</u>
	4,154	3,504
Dividends (Notes 3 and 8) .....	<u>3,045</u>	<u>2,175</u>
Retained earnings at end of year .....	<u>\$ 1,109</u>	<u>1,329</u>

*See accompanying notes*

# Twin Falls Power Corporation Limited

## Statement of Changes in Financial Position Year ended December 31, 1978

with comparative figures for 1977

	1978 (000)	1977 (000)
Funds provided		
Net income .....	\$ 2,825	3,012
Add (deduct) items not requiring (providing) working capital		
Depreciation .....	1,937	1,936
Deferred income taxes .....	<u>(473)</u>	<u>(272)</u>
 Total funds provided	 <u>4,289</u>	 <u>4,676</u>
 Funds applied		
Long-term debt becoming current .....	2,633	2,491
Additions to fixed assets .....	22	65
Dividends .....	<u>3,045</u>	<u>2,175</u>
 Total funds applied	 <u>5,700</u>	 <u>4,731</u>
 Decrease in working capital .....	 1,411	 55
Working capital at beginning of year .....	<u>13,168</u>	<u>13,223</u>
Working capital at end of year .....	<u>\$ 11,757</u>	<u>13,168</u>

See accompanying notes

# Twin Falls Power Corporation Limited

## Notes to the Financial Statements December 31, 1978

### 1. Summary of Significant Accounting Policies

Twin Falls Power Corporation Limited ("Twin Falls") follows accounting policies generally accepted in Canada, and the principal accounting policies of the Company are summarized hereunder.

#### 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 dates except for those accounts relating to the First Mortgage Bonds which are carried in the accounts at the proceeds realized in Canadian dollars.

#### Income Taxes

Income taxes are accounted for on the tax allocation method whereby income taxes are fully provided on income at prevailing tax rates. The deferred income tax balance which was created in years when reported income exceeded taxable income is now being reduced because taxable income exceeds reported income.

### 2. Fixed Assets

	1978 (000)	1977 (000)
Plant and equipment, at cost	\$ 64,804	64,782
Less accumulated depreciation	<u>27,196</u>	<u>25,259</u>
	<u>\$ 37,608</u>	<u>39,523</u>

### 3. Long-Term Debt

The following amounts of 5½% First Mortgage Bonds Series A due June 30, 1986, and 6¼% 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.

	1978		1977	
	Series A (U.S. \$000)	Series B (U.S. \$000)	Series A (U.S. \$000)	Series B (U.S. \$000)
Authorized	<u>\$ 42,500</u>	<u>10,000</u>	<u>42,500</u>	<u>10,000</u>
Issued	39,500	8,000	39,500	8,000
Retired	<u>20,399</u>	<u>3,038</u>	<u>18,390</u>	<u>2,712</u>
Outstanding at December 31	19,101	4,962	21,110	5,288
Due within one year	<u>2,121</u>	<u>347</u>	<u>2,009</u>	<u>326</u>
Long-term debt	<u>\$ 16,980</u>	<u>4,615</u>	<u>19,101</u>	<u>4,962</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:

1979 .....	\$2,468,000
1980 .....	2,608,000
1981 .....	2,756,000
1982 .....	2,912,000
1983 .....	3,078,000

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 .....	<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 cents 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.

6. *Directors and Officers*

Twin Falls has nine directors and four officers including two who are both directors and officers. In 1978 and 1977 no remuneration was paid by Twin Falls to the directors and officers.

7. *Anti-Inflation Legislation*

The Company is subject to anti-inflation legislation with respect to compensation.

8. *Subsequent Event*

Subsequent to December 31, 1978 the Directors declared dividends on the Class A and Class B shares amounting to \$187,500 and \$375,000, respectively.

9. *Management Approval*

These financial statements were approved by Management on February 19, 1979.









