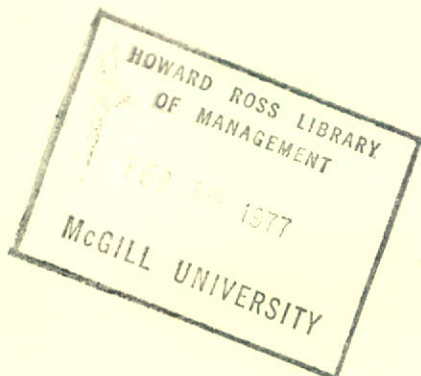


CHURCHILL FALLS
(LABRADOR) CORPORATION LIMITED

Annual Report 1975





CHURCHILL FALLS
(LABRADOR) CORPORATION LIMITED

Annual Report
1975



Officers

Chairman:
DENIS J. GROOM, C.A.

President and Chief Executive Officer:
JOHN W. BEAVER, P. Eng.

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

Vice-President and
General Manager — Operations:
LORNE G. BURLINGTON, P. Eng.

Vice-President, Finance and
Chief Financial Officer:
LORNE A. CARRIER, C.A.

Secretary:
M. CARLETON BURNES, C.A.

Comptroller:
WARREN G. FLOWERS, C.A.

Treasurer:
PETER F. S. NOBBS, C.A.

Directors

JOHN W. BEAVER, P. Eng.,
Montreal, Quebec,
President and Chief Executive Officer,
Churchill Falls (Labrador) Corporation Limited

ROBERT A. BOYD, Eng.,
Montreal, Quebec,
President,
James Bay Energy Corporation;
Commissioner,
Quebec Hydro-Electric Commission

ANGUS A. BRUNEAU, P. Eng.,
St. John's, Newfoundland,
Vice-President for Professional Schools and
Community Services,
Memorial University of Newfoundland

YVON DE GUISE, Eng.,
Montreal, Quebec,
Commissioner,
Quebec Hydro-Electric Commission

PETER J. GARDINER, M.A., C.A.
St. John's, Newfoundland,
General Manager,
Chester Dawe Limited

ROLAND GIROUX
Montreal, Quebec,
President,
Quebec Hydro-Electric Commission

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

DENIS J. GROOM, C.A.
St. John's, Newfoundland,
President and Chief Executive Officer,
Newfoundland and Labrador Hydro;
Chairman,
Churchill Falls (Labrador) Corporation Limited

J. MERVYN HAMBLEY, P. Eng.,
Willowdale, Ontario,
Consulting Engineer

ROLAND T. MARTIN, M.B.A.,
St. John's, Newfoundland,
Comptroller and Deputy Minister of Finance,
Province of Newfoundland

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

ALEXANDER C. THOMLINSON, M.B.A.,
Montreal, Quebec,
President,
Morgan Stanley Canada Limited

REGISTERED OFFICE
Philip Place,
Elizabeth Avenue,
St. John's, Newfoundland A1A 2X8

EXECUTIVE OFFICE
One Westmount Square,
Montreal, Quebec H3Z 2S2

Balance Sheet as at December 31, 1975

Assets	1975	1974
Current assets:		
Cash and short-term deposits	\$ 240,000	\$ 2,898,000
Accounts receivable [including from affiliates (\$602,000) 1974 — \$354,000]	10,951,000	9,935,000
Dividend receivable from Twin Falls Power Corporation Limited	225,000	175,000
Supplies and prepaid expenses	2,268,000	1,727,000
Total current assets	<u>13,684,000</u>	<u>14,735,000</u>
Investment in shares of Twin Falls Power Corporation Limited (note 2)	2,666,000	2,667,000
Churchill Falls power project, at cost	863,918,000	841,678,000
Less accumulated depreciation	28,696,000	19,192,000
	<u>835,222,000</u>	<u>822,486,000</u>
Trans-Labrador road, less \$2,337,000 (1974-\$1,753,000) written off	—	584,000
Unamortized debt discount and financing expenses	7,004,000	7,077,000
	<u>\$858,576,000</u>	<u>\$847,549,000</u>
 Liabilities and Shareholders' Equity		
Current liabilities:		
Notes payable (note 3)	\$ 10,000,000	\$ —
Accounts payable and accrued liabilities	5,559,000	10,210,000
Royalty and rental due to the Province of Newfoundland [note 8(b)]	5,575,000	4,264,000
Provision for self insurance	2,180,000	1,580,000
Total current liabilities	<u>23,314,000</u>	<u>16,054,000</u>
Long-term debt (note 3)	663,277,000	695,277,000
Deferred income taxes	21,959,000	12,903,000
Shareholders' equity:		
Capital stock (note 4)	82,900,000	82,900,000
Retained earnings (note 5)	67,126,000	40,415,000
	<u>150,026,000</u>	<u>123,315,000</u>
	<u>\$858,576,000</u>	<u>\$847,549,000</u>

See accompanying notes

On behalf of the Board:

John W. Beaver, Director

Robert A. Boyd, Director



Statement of Income and Retained Earnings
For the year ended December 31, 1975

	1975	1974
Revenue:		
Sales of power (note 6)	\$85,862,000	\$63,994,000
Rental of rights and facilities to Twin Falls Power Corporation Limited	735,000	735,000
Equity in net income of Twin Falls Power Corporation Limited for the year	774,000	704,000
Total revenue	<u>87,371,000</u>	<u>65,433,000</u>
Expenses:		
Plant and corporate costs	8,100,000	5,975,000
Horsepower royalty [note 8 (b)]	2,423,000	1,786,000
Newfoundland rental [note 8 (b)]	3,113,000	2,383,000
Interest and amortization of debt discount and financing expenses (note 7)	27,864,000	20,377,000
Depreciation and amount written off Trans-Labrador road	10,104,000	7,262,000
Total expenses	<u>51,604,000</u>	<u>37,783,000</u>
Net income before income taxes	35,767,000	27,650,000
Deferred income taxes	9,056,000	7,115,000
Net income for the year	26,711,000	20,535,000
Retained earnings at beginning of year	40,415,000	19,880,000
Retained earnings at end of year	<u>\$67,126,000</u>	<u>\$40,415,000</u>

See accompanying notes

**Statement of Changes in Financial Position
For the year ended December 31, 1975**

	1975	1974
Source of funds:		
From current operations:		
Net income	\$26,711,000	\$20,535,000
Add expenses not requiring working capital during the year:		
Amortization of debt discount and financing expenses	196,000	139,000
Depreciation and amount written off Trans-Labrador road	10,104,000	7,262,000
Deferred income taxes	9,056,000	7,115,000
	<u>46,067,000</u>	<u>35,051,000</u>
 Excess of dividends declared over equity in net income of Twin Falls Power Corporation Limited for the year	 1,000	 9,000
Bank loan	<u>—</u>	<u>8,000,000</u>
	<u>46,068,000</u>	<u>43,060,000</u>
 Use of funds:		
Development of Churchill Falls power project	22,256,000	43,228,000
Reduction of bank loan	32,000,000	—
Debt discount and financing expenses	123,000	60,000
	<u>54,379,000</u>	<u>43,288,000</u>
Decrease in working capital	(8,311,000)	(228,000)
Working capital (deficiency) at beginning of year	(1,319,000)	(1,091,000)
Working capital (deficiency) at end of year	<u>\$ (9,630,000)</u>	<u>\$ (1,319,000)</u>

See accompanying notes

Notes to the Financial Statements For the year ended December 31, 1975

1. Accounting Policies

The principal accounting policies followed by Churchill Falls (Labrador) Corporation Limited ("Churchill Falls") are summarized hereunder. Churchill Falls is not subject to regulatory authority with respect to accounting practices and, accordingly, generally accepted accounting principles apply.

Investment in Shares of Twin Falls Power Corporation Limited:

Churchill Falls owns voting control (66⅔%) of Twin Falls Power Corporation Limited ("Twin Falls"). However, such shares represent only a 33⅓% interest in the equity of Twin Falls.

In view of the fact that the equity interest in Twin Falls is 33⅓% 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 Power Project ("Project")

With the commencement of commercial delivery of power on May 1, 1972, under the terms of the power contract dated May 12, 1969, with Quebec Hydro-Electric Commission ("Power Contract"), Churchill Falls adopted the policy of providing depreciation at a rate of 1½% per annum on a straight-line basis on the capital cost of the Project. This rate is applied in the proportion of the number of units generating power under the terms of the Power Contract to the 10 units which will be so generating upon completion of the Project.

(b) Trans-Labrador Road

The cost of the Trans-Labrador road was written off over four years ending 1975.

(c) The proceeds from disposal of equipment purchased for or used in the construction of the Project are credited to Project cost.

(d) Debt Discount and Financing Expenses

With effect from May 1, 1972, debt discount and financing expenses are being amortized on a straight-line basis over the term of the First Mortgage Bonds. Until completion of the Project, the charge to operations is in the proportion of the number of units generating power under the terms of the Power Contract to the 10 units which will be so generating upon completion of the Project.

Provision for Self Insurance:

Churchill Falls includes in operating expenses, charges for self insurance of risks for direct damage to assets and for related loss of revenue with respect to the deductibles stipulated in its insurance policies.

Foreign Currencies:

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

(a) Current assets and current liabilities at exchange rates in effect at balance sheet dates except for those liabilities covered by forward purchases of U.S. dollars.

(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 transaction.

Cost Allocations:

Plant and corporate costs and net interest expense are charged to operations in the proportion of the number of units generating power under the terms of the Power Contract to the 10 units which will be so generating upon completion of the Project. The balance of these costs is included in the capital cost of the Project.

The number of units generating power under the terms of the Power Contract has been as follows:

	Units Generating	% of Cost	
		Charged to Operations	Included in Project Cost
Prior to May 1972	NIL	NIL	100
May to November 1972	2	20	80
December 1972 to August 1973	3	30	70
September to November 1973	4	40	60
December 1973 to August 1974	5	50	50
September to November 1974	6	60	40
December 1974 to August 1975	7	70	30
September to November 1975	8	80	20
December 1975	9	90	10



2. *Investment in Shares of Twin Falls Power Corporation Limited*

	1975		1974
Shares, at cost	\$ 2,500,000		\$ 2,500,000
Equity in retained earnings at beginning of year	167,000	176,000	
Equity in net income for the year	<u>774,000</u>	<u>704,000</u>	
	941,000	880,000	
Dividends for the year	<u>775,000</u>	<u>713,000</u>	167,000
	<u>\$ 2,666,000</u>		<u>\$ 2,667,000</u>

3. *Long-Term Debt*

	1975	1974
First Mortgage Bonds:		
7¾% Series A due Dec. 15, 2007 Authorized, issued and outstanding \$500,000,000 (U.S.)	\$513,277,000	\$513,277,000
7⅞% Series B due Dec. 15, 2007 Authorized, issued and outstanding \$50,000,000	50,000,000	50,000,000
Bank Loan	—	32,000,000
General Mortgage Bonds:		
7½% due three years after latest maturity of any First Mortgage Bonds Authorized, issued and outstanding \$100,000,000	<u>100,000,000</u>	100,000,000
	<u>\$663,277,000</u>	<u>\$695,277,000</u>

First Mortgage Bonds:

The First Mortgage Bonds Series A are carried in the accounts at the proceeds realized in Canadian dollars. From time to time the Company enters into forward purchases of U.S. dollars for the purpose of servicing this debt. These bonds are repayable in fixed semi-annual and in contingent annual sinking fund instalments commencing June 1978.

Bank Loan:

In June 1975 Churchill Falls terminated its credit agreement with a consortium of Canadian banks and short-term financing was arranged with a shareholder of Churchill Falls.

General Mortgage Bonds:

The Deed of Trust and Mortgage securing the General Mortgage Bonds provides for semi-annual sinking fund payments commencing in June of the fourth year following the completion of the Project. 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:

It is not possible to be precise concerning long-term debt repayments over the next five years, but these are estimated to be as follows:

1976	NIL
1977	NIL
1978	\$23,000,000
1979	\$19,000,000
1980	\$21,000,000



4. *Capital Stock*

Common shares without nominal or par value authorized and issued as at December 31, 1974 and 1975 were:

	Shares	Amount
Authorized	10,000,000	
Issued and fully paid	8,759,999	\$82,900,000

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

5. *Retained Earnings*

Under the terms of the debt instruments, Churchill Falls is prohibited from paying cash dividends out of income accumulated up to the Project completion date, as defined and expected to be September 1976. These debt instruments also place restrictions on the payment of cash dividends out of income earned thereafter.

6. *Sales of Power*

The Power Contract provides for the sale of substantially all of the power from the Project for an initial period of approximately 40 years with a renewal for a further period of 25 years.

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.

During the year Churchill Falls derived approximately \$805,000 (1974 — \$278,000) from the delivery of excess power made possible by the use of capacity not required to meet commitments under the Power Contract.

7. *Interest and Amortization of Debt Discount and Financing Expenses*

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

	1975	1974
Gross interest, including commitment fees	<u>\$52,263,000</u>	<u>\$52,857,000</u>
Less: Interest income	<u>360,000</u>	<u>1,096,000</u>
Recovered from Quebec Hydro-Electric Commission (see below)	<u>14,585,000</u>	<u>14,543,000</u>
	<u>14,945,000</u>	<u>15,639,000</u>
Net interest expense	<u>37,318,000</u>	<u>37,218,000</u>
Allocated to Project cost	<u>9,650,000</u>	<u>16,980,000</u>
Charged to operations	<u>27,668,000</u>	<u>20,238,000</u>
Amortization of debt discount and financing expenses	<u>196,000</u>	<u>139,000</u>
	<u>\$27,864,000</u>	<u>\$20,377,000</u>

Under the terms of the Power Contract, Quebec Hydro-Electric Commission is obliged to pay to Churchill Falls a portion of the interest charges on the long-term debt and notes payable of Churchill Falls. The amount payable by the Commission is the difference between interest calculated at the rates prescribed in the Power Contract and interest actually paid.



8. *Commitments and Contingent Liabilities*

- (a) At December 31, 1975, Churchill Falls was defending legal actions aggregating approximately \$4,000,000 arising from claims submitted by a contractor in connection with the development of the Project.
- (b) 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).
- (c) Churchill Falls has a sublease with Twin Falls giving that company 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. Under the terms of the sublease, Churchill Falls suspended certain of Twin Falls' rights under the sublease with effect from June 30, 1974, and accordingly, 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 at an agreed price, during the unexpired term of the sublease or any renewal thereof, horsepower equivalent to the installed horsepower of the Twin Falls plant. In addition, Churchill Falls is required, at its own expense to keep and maintain in good working order all structures, works and plant of Twin Falls.

9. *Remuneration of Directors and Officers*

	Number	Aggregate Remuneration
Directors — 1975	12	\$ 51,000
January 1 to June 27, 1974	15	17,000
June 28 to December 31, 1974	12	24,000
Officers — 1975	8 (2 of whom were directors)	230,000
January 1 to June 27, 1974	12 (3 of whom were directors)	118,000
June 28 to December 31, 1974	7 (2 of whom were directors)	94,000

In 1975 two (four during the period January 1 to June 27, and one during the period June 28 to December 31, 1974) senior officers did not receive remuneration as officers from Churchill Falls.

10. *Anti-Inflation Legislation*

The company is subject to anti-inflation legislation with respect to prices, compensation and dividends.

Auditors' Report to the Shareholders

We have examined the balance sheet of Churchill Falls (Labrador) Corporation Limited as at December 31, 1975, and the statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company at December 31, 1975, 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
Montreal, Quebec
February 11, 1976

Twin Falls Power Corporation Limited

Officers

President:
JOHN W. BEAVER, P. Eng.
Vice-President and
Chief Financial Officer:
LORNE A. CARRIER, C.A.
Secretary:
PIERRE G. BOURGEOU, B.A.-Pol. Sc., LL.B.
General Manager:
LORNE G. BURLINGTON, P. Eng.
Controller:
WARREN G. FLOWERS, C.A.
Treasurer:
PETER F. S. NOBBS, C.A.

Directors

JOHN W. BEAVER, P. Eng.,
Montreal, Quebec,
President and Chief Executive Officer,
Churchill Falls (Labrador) Corporation Limited
WILLIAM J. BENNETT,
Montreal, Quebec,
President,
Iron Ore Company of Canada
LORNE G. BURLINGTON, P. Eng.,
Churchill Falls, Labrador, Newfoundland,
Vice-President and
General Manager — Operations,
Churchill Falls (Labrador) Corporation Limited
M. CARLETON BURNES, C.A.
St. John's, Newfoundland,
Vice-President and Secretary,
Newfoundland and Labrador Hydro
LORNE A. CARRIER, C.A.
Montreal, Quebec,
Vice-President, Finance and
Chief Financial Officer,
Churchill Falls (Labrador) Corporation Limited
FRANK H. CARTER,
Montreal, Quebec,
General Solicitor,
Pickands, Mather & Co.
LAWRENCE A. HALSEY
Montreal, Quebec,
Assistant Secretary,
Iron Ore Company of Canada
RAYMOND H. P. THOM, P. Eng.,
Montreal, Quebec,
Chief Engineer,
Churchill Falls (Labrador) Corporation Limited
HENRY P. WHALEY
Cleveland, Ohio, U.S.A.
Vice-President — Operations,
Pickands, Mather & Co.

HEAD OFFICE:
Philip Place,
Elizabeth Avenue,
St. John's Newfoundland A1A 2X8

Twin Falls Power Corporation Limited

Balance Sheet as at December 31, 1975

Assets	1975	1974
Current assets:		
Cash and short-term deposits	\$14,797,000	\$17,740,000
Accounts receivable	964,000	969,000
Supplies and prepaid expenses	60,000	66,000
Total current assets	<u>15,821,000</u>	<u>18,775,000</u>
Plant and equipment, at cost	64,675,000	64,700,000
Less accumulated depreciation	<u>21,391,000</u>	<u>19,554,000</u>
	<u>43,284,000</u>	<u>45,146,000</u>
	<u>\$59,105,000</u>	<u>\$63,921,000</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank loan	\$ —	\$ 5,000,000
Accounts payable and accrued liabilities (including to affiliate \$250,000; 1974-\$354,000)	302,000	497,000
Dividends payable	675,000	525,000
First Mortgage Bonds due within one year (note 2)	<u>2,230,000</u>	<u>2,110,000</u>
Total current liabilities	<u>3,207,000</u>	<u>8,132,000</u>
First Mortgage Bonds (note 2):		
5½% Series A due June 30, 1986	24,504,000	26,424,000
6¼% Series B due June 30, 1989	<u>6,032,000</u>	<u>6,342,000</u>
	<u>30,536,000</u>	<u>32,766,000</u>
Deferred income taxes	17,363,000	15,022,000
Shareholders' equity:		
Capital stock (note 3)	7,500,000	7,500,000
Retained earnings (note 2)	<u>499,000</u>	<u>501,000</u>
	<u>7,999,000</u>	<u>8,001,000</u>
	<u>\$59,105,000</u>	<u>\$63,921,000</u>

See accompanying notes

On behalf of the Board:

John W. Beaver, Director

Lawrence A. Halsey, Director

Twin Falls Power Corporation Limited

Statement of Income and Retained Earnings For the year ended December 31, 1975

	1975	1974
Revenue:		
Sales of power	<u>\$ 9,961,000</u>	<u>\$ 9,492,000</u>
Expenses:		
Cost of power (note 4)	2,565,000	2,057,000
Interest on bank loan	40,000	536,000
Interest on First Mortgage Bonds	1,938,000	2,052,000
Depreciation	<u>1,937,000</u>	<u>1,933,000</u>
	<u>6,480,000</u>	<u>6,578,000</u>
Income before the following items	3,481,000	2,914,000
Interest income	<u>1,183,000</u>	<u>1,490,000</u>
	4,664,000	4,404,000
Deferred income taxes	<u>2,341,000</u>	<u>2,292,000</u>
Net income for the year	2,323,000	2,112,000
Retained earnings at beginning of year	<u>501,000</u>	<u>527,000</u>
	2,824,000	2,639,000
Dividends	<u>2,325,000</u>	<u>2,138,000</u>
Retained earnings at end of year	<u>\$ 499,000</u>	<u>\$ 501,000</u>

See accompanying notes

Twin Falls Power Corporation Limited

Statement of Changes in Financial Position For the year ended December 31, 1975

	1975	1974
Source of funds:		
From current operations:		
Net income	\$ 2,323,000	\$ 2,112,000
Add expenses not requiring working capital:		
Depreciation	1,937,000	1,933,000
Deferred income taxes	2,341,000	2,292,000
	<u>6,601,000</u>	<u>6,337,000</u>
Use of funds:		
Plant and equipment — net	75,000	267,000
Reduction of long-term debt	2,230,000	2,110,000
Dividends	2,325,000	2,138,000
	<u>4,630,000</u>	<u>4,515,000</u>
Increase in working capital	1,971,000	1,822,000
Working capital at beginning of year	10,643,000	8,821,000
Working capital at end of year	<u>\$ 12,614,000</u>	<u>\$ 10,643,000</u>

See accompanying notes

Twin Falls Power Corporation Limited

Notes to the Financial Statements

For the year ended December 31, 1975

1. *Accounting Policies*

The principal accounting policies followed by Twin Falls Power Corporation Limited ("Twin Falls") 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. 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.

2. *First Mortgage Bonds*

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.

	1975		1974	
	Series A (US \$)	Series B (US \$)	Series A (US \$)	Series B (US \$)
Authorized	\$42,500,000	\$10,000,000	\$42,500,000	\$10,000,000
Issued	39,500,000	8,000,000	39,500,000	8,000,000
Retired	14,685,000	2,118,000	12,978,000	1,847,000
Outstanding December 31	24,815,000	5,882,000	26,522,000	6,153,000
Due within one year	1,803,000	288,000	1,707,000	271,000
Long-term debt	\$23,012,000	\$ 5,594,000	\$24,815,000	\$ 5,882,000

Estimated repayments, in U.S. dollars, of First Mortgage Bonds over the next five years are:

1976	\$2,091,000
1977	2,208,000
1978	2,335,000
1979	2,468,000
1980	2,608,000

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.

Twin Falls Power Corporation Limited

3. *Capital Stock*

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
	<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.

4. *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 ("Suspension Date"), 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 obligated to purchase this power for an amount equal to the average annual cost of operating the Twin Falls plant in 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.

5. *Directors and Officers*

Twin Falls has nine directors and five officers including two (one in 1974) who are both directors and officers. In 1974 and 1975 no remuneration was paid by Twin Falls to the directors and officers.

6. *Anti-Inflation Legislation*

The company is subject to anti-inflation legislation with respect to prices, compensation and dividends.

Auditor's Report to the Shareholders

We have examined the balance sheet of Twin Falls Power Corporation Limited as at December 31, 1975, and the statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company at December 31, 1975, 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
Montreal, Quebec
February 4, 1976

