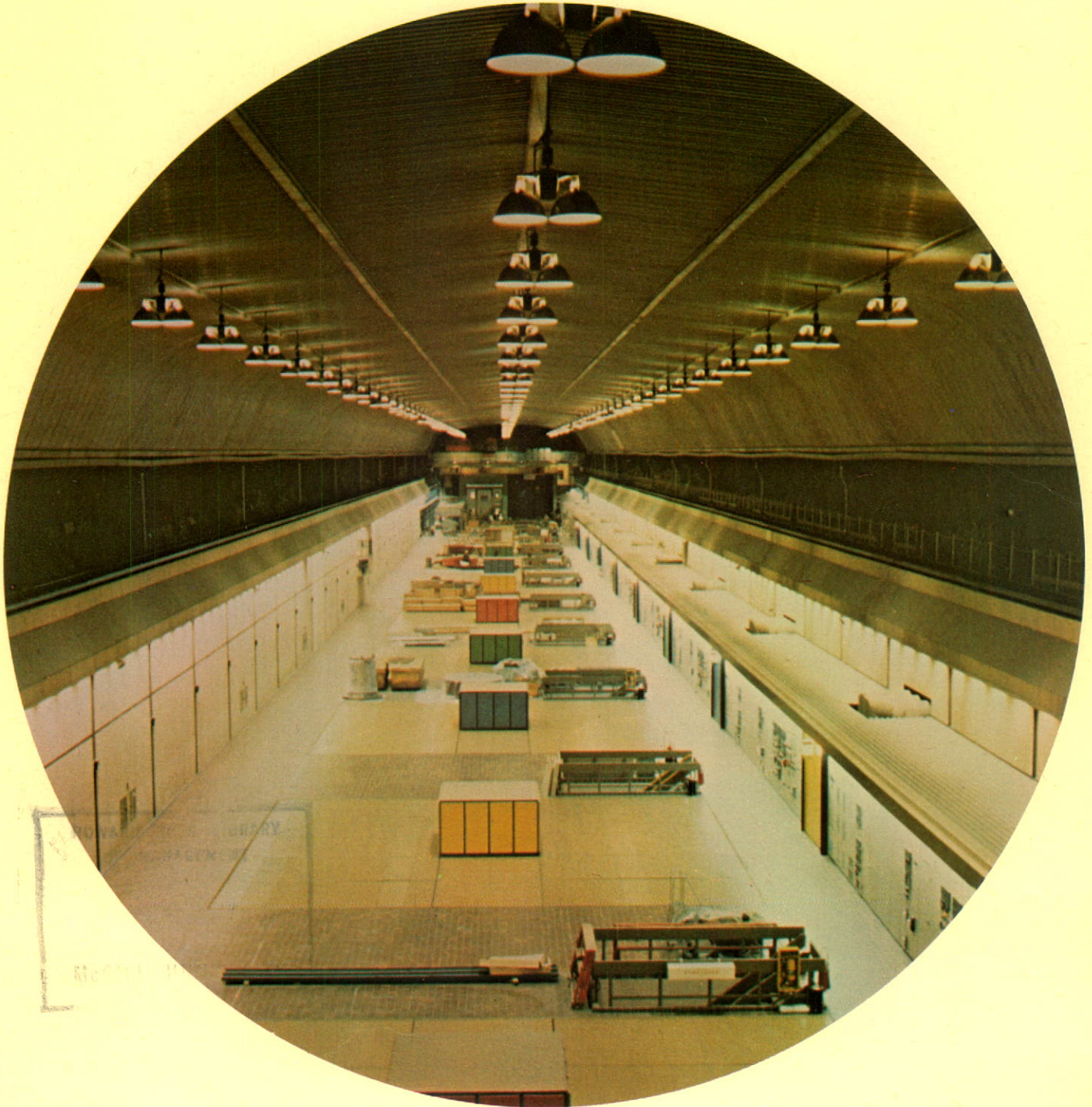
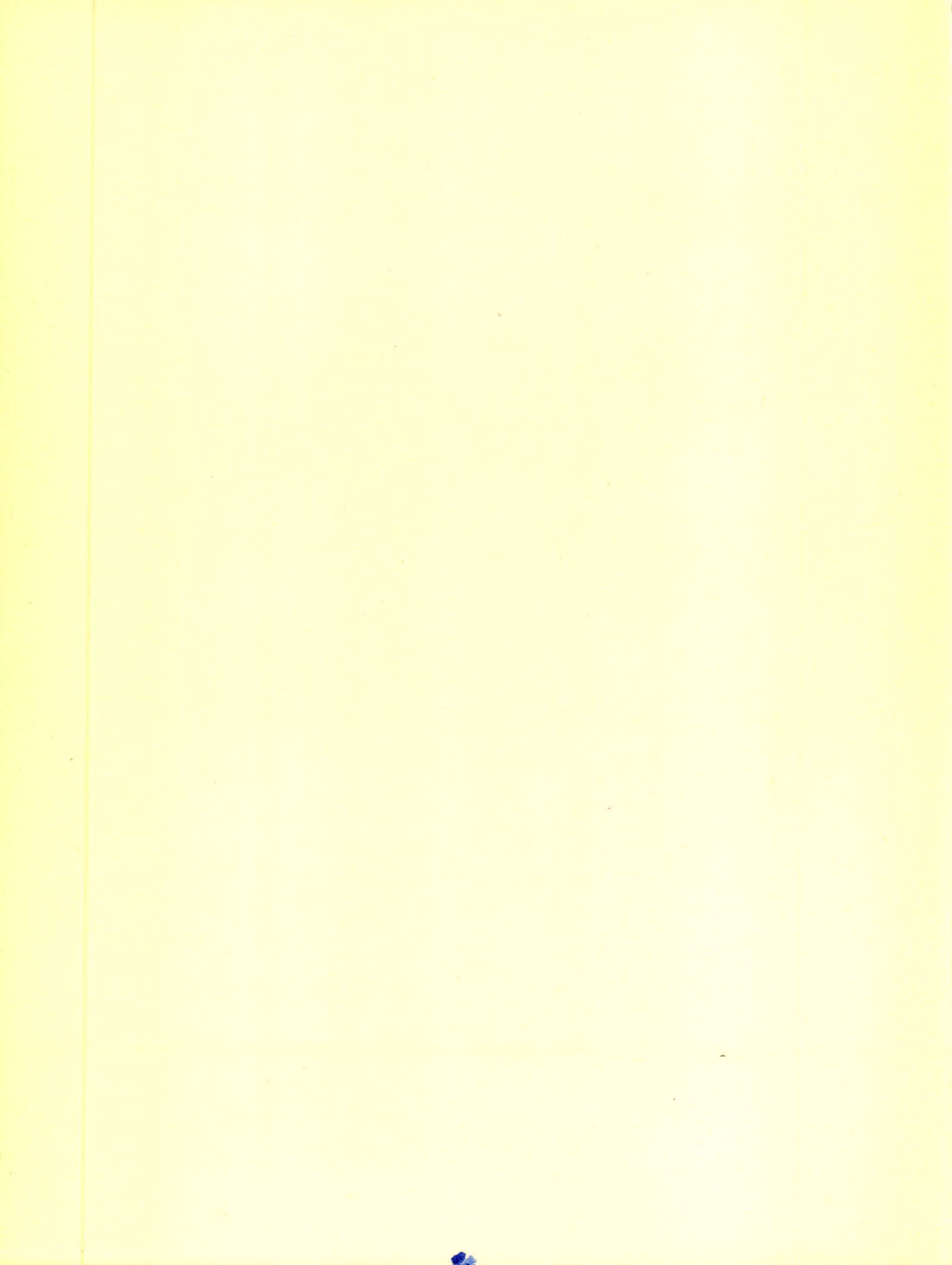


Annual Report

1974





Officers

Chairman:
DENIS J. GROOM, C.A.
President and Chief Executive Officer:
JOHN W. BEAVER, P. Eng.
Vice-President, Finance and Chief Financial Officer:
LORNE A. CARRIER, C.A.
General Counsel and Secretary:
PIERRE G. BOURGEOU,
B.A.-Pol. Sc., LL.B.
General Manager — Operations:
LORNE G. BURLINGTON, P. Eng.
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
Vice-President,
Newfoundland and Labrador Hydro
ALEXANDER C. TOMLINSON, M.B.A.,
Montreal, Quebec
President,
Morgan Stanley Canada Limited

REGISTERED OFFICE
Philip Place,
Elizabeth Avenue,
St. John's, Newfoundland
EXECUTIVE OFFICE
One Westmount Square,
Montreal, Quebec H3Z 2S2

*On peut obtenir le texte français de ce rapport auprès
du service des Relations Publiques, Churchill Falls
(Labrador) Corporation Limited, Un, Westmount
Square, Montréal.*

...from the President

The events of the past twelve months demonstrate that a year in the life of a corporation can be just as exciting and just as unpredictable as a year in the life of an individual.

Certainly 1974 was an eventful year for Churchill Falls (Labrador) Corporation Limited (CFLCo). The two events that come to mind are the acquisition by the Newfoundland Government of a majority equity interest in CFLCo and the completion of the final turbine-generator units.

The purchase by the Newfoundland Government of Brinco Limited's equity holding in CFLCo was looked at by many within the company with guarded optimism, requiring as it did a reappraisal of their role within the company and of the company's role in Newfoundland and Labrador.

We had to remind ourselves that the company was created to generate and transmit hydro-electric power from Labrador for the benefit of its owners and the people of the province. Now with construction virtually complete and the ownership of CFLCo simplified, we can all get on with the job.



The changing circumstance required the restructuring of the corporate organization and this has been completed. That an orderly transition was achieved is a tribute to the skill and goodwill of the officers and staff of the two companies. The response to the uncertainty and the problems that arose was gratifying, particularly to me as I had been charged at mid-year with the responsibility of serving as President and Chief Executive Officer.

During the year, the final four of eleven units were added at Churchill Falls to reach its full installed capacity of 5,225,000 kilowatts or 7,000,000 horsepower. While some construction and cleanup work remains, the addition of these units signalled the end of a very successful construction phase and with the events of the past year, a hopeful beginning to the long-term operations phase.

Another matter should be highlighted in these remarks and that is the hard work, loyalty, contribution and impressive skills demonstrated during 1974 by the men and women of CFLCo. These qualities will all be needed in the trying energy days ahead.

This annual report is dedicated to our people. It includes many photographs taken during the past year of a cross section of our employees on the job. A few of these people have left, but the jobs they depict are now being done by others.



J. W. Beaver
President & Chief Executive Officer
March 5, 1975

Report of Directors to Shareholders



The year 1974 was one of progress, and of change, for Churchill Falls (Labrador) Corporation Limited. Earnings, predictably, increased, and the four final turbine-generator units were commissioned to fill the growing energy demand from Hydro-Quebec, CFLCo's principal customer. In an action that was not predicted, the Government of Newfoundland acquired a majority equity holding in the company.



CHURCHILL FALLS
(LABRADOR) CORPORATION LIMITED

Balance Sheet as at December 31, 1974

| Assets | 1974 | 1973 |
|---|----------------------|----------------------|
| Current assets: | | |
| Cash and short-term deposits | \$ 2,898,000 | \$ 10,534,000 |
| Accounts receivable (including from affiliate \$354,000; 1973—\$132,000) | 9,935,000 | 6,672,000 |
| Dividend receivable from Twin Falls Power Corporation Limited | 175,000 | 238,000 |
| Supplies and prepaid expenses | 1,727,000 | 1,501,000 |
| Total current assets | 14,735,000 | 18,945,000 |
| Investment in shares of Twin Falls Power Corporation Limited (note 2) | 2,667,000 | 2,676,000 |
| Churchill Falls power project, at cost | 841,678,000 | 798,450,000 |
| Less accumulated depreciation | 19,192,000 | 12,514,000 |
| | 822,486,000 | 785,936,000 |
| Trans-Labrador road, less \$1,753,000 (1973—\$1,169,000) written off | 584,000 | 1,168,000 |
| Unamortized debt discount and financing expenses | 7,077,000 | 7,156,000 |
| | <u>\$847,549,000</u> | <u>\$815,881,000</u> |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 11,790,000 | \$ 17,285,000 |
| Royalty and rental due to the Province of Newfoundland [note 8 (b)] | 4,264,000 | 2,751,000 |
| Total current liabilities | 16,054,000 | 20,036,000 |
| Long-term debt (note 3) | 695,277,000 | 687,277,000 |
| Deferred income taxes | 12,903,000 | 5,788,000 |
| Shareholders' equity: | | |
| Capital stock (note 4) | 82,900,000 | 82,900,000 |
| Retained earnings (note 5) | 40,415,000 | 19,880,000 |
| | 123,315,000 | 102,780,000 |
| | <u>\$847,549,000</u> | <u>\$815,881,000</u> |

See accompanying notes

On behalf of the Board:

John W. Beaver, Director

Robert A. Boyd, Director



CHURCHILL FALLS
(LABRADOR) CORPORATION LIMITED

Statement of Income and Retained Earnings for the year ended December 31, 1974

| | 1974 | 1973 |
|---|----------------------------|---------------------|
| Revenue: | | |
| Sales of power (note 6) | \$63,994,000 | \$39,577,000 |
| 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 | 704,000 | 654,000 |
| Total revenue | <u>65,433,000</u> | <u>40,966,000</u> |
| Expenses: | | |
| Plant and corporate costs | 5,975,000 | 3,745,000 |
| Horsepower royalty [note 8 (b)] | 1,786,000 | 1,107,000 |
| Newfoundland rental [note 8 (b)] | 2,383,000 | 1,506,000 |
| Interest and amortization of debt discount and financing expenses (note 7) | 20,377,000 | 12,489,000 |
| Depreciation and amount written off Trans-Labrador road | 7,262,000 | 4,491,000 |
| Total expenses | <u>37,783,000</u> | <u>23,338,000</u> |
| Net income before income taxes | 27,650,000 | 17,628,000 |
| Deferred income taxes | 7,115,000 | 4,549,000 |
| Net income for the year | 20,535,000 | 13,079,000 |
| Retained earnings at beginning of year | 19,880,000 | 6,801,000 |
| Retained earnings at end of year | <u>\$40,415,000</u> | <u>\$19,880,000</u> |

See accompanying notes



CHURCHILL FALLS
(LABRADOR) CORPORATION LIMITED

Statement of Changes in Financial Position for the year ended December 31, 1974

| | 1974 | 1973 |
|---|-----------------------|-----------------------|
| Source of funds: | | |
| From current operations: | | |
| Net income | \$20,535,000 | \$13,079,000 |
| Add expenses not requiring working capital during the year: | | |
| Amortization of debt discount and financing expenses | 139,000 | 83,000 |
| Depreciation and amount written off | | |
| Trans-Labrador road | 7,262,000 | 4,491,000 |
| Deferred income taxes | 7,115,000 | 4,549,000 |
| | <u>35,051,000</u> | <u>22,202,000</u> |
| Excess of dividends declared over equity in net income of Twin Falls Power Corporation Limited for the year | 9,000 | — |
| Long-term debt: | | |
| Bank loan | 8,000,000 | — |
| First Mortgage Bonds Series A | — | 59,679,000 |
| First Mortgage Bonds Series B | — | 11,775,000 |
| | <u>43,060,000</u> | <u>93,656,000</u> |
| Use of funds: | | |
| Excess of equity in net income of Twin Falls Power Corporation Limited for the year over dividends declared | — | 4,000 |
| Development of Churchill Falls power project | 43,228,000 | 82,208,000 |
| Reduction of bank loan | — | 10,000,000 |
| Debt discount and financing expenses | 60,000 | 509,000 |
| | <u>43,288,000</u> | <u>92,721,000</u> |
| Increase (decrease) in working capital | (228,000) | 935,000 |
| Working capital (deficiency) at beginning of year | (1,091,000) | (2,026,000) |
| Working capital (deficiency) at end of year | <u>\$ (1,319,000)</u> | <u>\$ (1,091,000)</u> |

See accompanying notes



Notes to the Financial Statements for the year ended December 31, 1974

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 (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 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 1¹/₂% 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 is being 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.

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 | 7 | 70 | 30 |



CHURCHILL FALLS
(LABRADOR) CORPORATION LIMITED

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

| | 1974 | | 1973 |
|--|---------------------|----------------|---------------------|
| Shares, at cost | \$ 2,500,000 | | \$ 2,500,000 |
| Equity in retained earnings at beginning of year | 176,000 | 172,000 | |
| Equity in net income for the year | 704,000 | 654,000 | |
| | <u>880,000</u> | <u>826,000</u> | |
| Dividends for the year | 713,000 | 650,000 | 176,000 |
| | <u>167,000</u> | <u>650,000</u> | <u>176,000</u> |
| | <u>\$ 2,667,000</u> | | <u>\$ 2,676,000</u> |

3. *Long-Term Debt*

| | 1974 | | 1973 |
|---|----------------------|--|----------------------|
| First Mortgage Bonds: | | | |
| 7-¾% Series A due Dec. 15, 2007 Authorized, issued and outstanding \$500,000,000 (U.S.) | \$513,277,000 | | \$513,277,000 |
| 7-7/8% Series B due Dec. 15, 2007 Authorized, issued and outstanding \$50,000,000 | 50,000,000 | | 50,000,000 |
| Bank Loan: | | | |
| Authorized: 1974 \$ 40,000,000 1973 \$100,000,000 | | | |
| Issued and outstanding | 32,000,000 | | 24,000,000 |
| General Mortgage Bonds: | | | |
| 7½% due three years after latest maturity of any First Mortgage Bonds | | | |
| Authorized, issued and outstanding \$100,000,000 | 100,000,000 | | 100,000,000 |
| | <u>\$695,277,000</u> | | <u>\$687,277,000</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.

The First Mortgage Bonds are repayable in fixed semi-annual and in contingent annual sinking fund instalments commencing June 1978. It is not possible at this time to be precise as to the aggregate amounts payable in 1978 and 1979 but these are estimated to be \$18,500,000 and \$15,000,000 respectively.

Bank Loan:

Under the terms of an agreement with a consortium of Canadian banks, Churchill Falls is provided with a credit not exceeding \$40,000,000, (\$100,000,000 in 1973) at any time outstanding. The agreement provides for the issue of revolving 90 day notes. At December 31, 1974 the rate of interest payable on the outstanding notes was 11½% (10% as to \$6,650,000 and 9½% as to \$17,350,000 at December 31, 1973), being ½ of 1% over the prime rate charged by each bank and prevailing at the date of issue of each note. On December 31, 1975, or such earlier date as shall be designated by Churchill Falls, the amount of the then outstanding notes is convertible into a term loan repayable in equal semi-annual instalments to December 31, 1978.

The Bank Loan is subordinate to the First Mortgage Bonds.

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.

The General Mortgage Bonds are subordinate to the First Mortgage Bonds and the Bank Loan.



CHURCHILL FALLS
(LABRADOR) CORPORATION LIMITED

4. *Capital Stock*

Common shares without nominal or par value authorized and issued as at December 31, 1973 and 1974 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. 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 \$278,000 (1973 — \$430,000) 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:

| | 1974 | 1973 |
|---|---------------------|---------------------|
| Gross interest, including commitment fees | <u>\$52,857,000</u> | <u>\$50,885,000</u> |
| Less: Interest income | 1,096,000 | 1,433,000 |
| Recovered from Quebec Hydro-Electric Commission (see below) | <u>14,543,000</u> | <u>13,694,000</u> |
| | <u>15,639,000</u> | <u>15,127,000</u> |
| Net interest expense | <u>37,218,000</u> | 35,758,000 |
| Allocated to Project cost | <u>16,980,000</u> | <u>23,352,000</u> |
| Charged to operations | <u>20,238,000</u> | 12,406,000 |
| Amortization of debt discount and financing expenses | <u>139,000</u> | 83,000 |
| | <u>\$20,377,000</u> | <u>\$12,489,000</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 of Churchill Falls. The amount payable by the Commission is the difference between interest calculated at the rates prescribed in the Power Contract and at rates actually paid on long-term debt.



CHURCHILL FALLS
(LABRADOR) CORPORATION LIMITED

8. *Commitments and Contingent Liabilities*

- (a) At December 31, 1974, 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 has the right to divert the flow of water from the Twin Falls plant and to use 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 — January 1 to June 27, 1974 | 15 | \$17,000 |
| June 28 to December 31, 1974 | 12 | 24,000 |
| 1973 | 15 | 27,000 |
| Officers — 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 |
| 1973 | 13 (3 of whom were directors) | 247,000 |

For the period from January 1 to June 27, 1974, four (five for the year 1973) senior officers did not receive remuneration as officers from Churchill Falls, but did receive remuneration from associated companies. The services of these senior officers were provided pursuant to agreements with such associated companies.

Auditors' Report to the Shareholders

We have examined the balance sheet of Churchill Falls (Labrador) Corporation Limited as at December 31, 1974, 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, 1974, 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 27, 1975

TWIN FALLS POWER CORPORATION LIMITED

Balance Sheet as at December 31, 1974

| Assets | 1974 | 1973 |
|--|----------------------------|---------------------|
| Current assets: | | |
| Cash and short-term deposits | \$17,740,000 | \$15,620,000 |
| Accounts receivable | 969,000 | 682,000 |
| Supplies and prepaid expenses | <u>66,000</u> | <u>67,000</u> |
| Total current assets | 18,775,000 | 16,369,000 |
| Plant and equipment, at cost | 59,911,000 | 59,855,000 |
| Less accumulated depreciation | <u>19,410,000</u> | <u>17,682,000</u> |
| | 40,501,000 | 42,173,000 |
| Wabush Terminal Expansion (note 2) | 4,789,000 | 4,639,000 |
| Less accumulated depreciation | <u>144,000</u> | <u>—</u> |
| | 4,645,000 | 4,639,000 |
| | <u>\$63,921,000</u> | <u>\$63,181,000</u> |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Bank loan (note 2) | \$ 5,000,000 | \$ 4,600,000 |
| Accounts payable and accrued liabilities (including to affiliate \$354,000; 1973 — \$132,000) | 497,000 | 240,000 |
| Dividends payable | 525,000 | 713,000 |
| First Mortgage Bonds due within one year (note 3) | <u>2,110,000</u> | <u>1,995,000</u> |
| Total current liabilities | 8,132,000 | 7,548,000 |
| First Mortgage Bonds (note 3): | | |
| 5½% Series A due June 30, 1986 | 26,424,000 | 28,242,000 |
| 6¼% Series B due June 30, 1989 | <u>6,342,000</u> | <u>6,634,000</u> |
| | 32,766,000 | 34,876,000 |
| Deferred income taxes | 15,022,000 | 12,730,000 |
| Shareholders' equity: | | |
| Capital stock (note 4) | 7,500,000 | 7,500,000 |
| Retained earnings (note 3) | <u>501,000</u> | <u>527,000</u> |
| | 8,001,000 | 8,027,000 |
| | <u>\$63,921,000</u> | <u>\$63,181,000</u> |

See accompanying notes

On behalf of the Board:

John W. Beaver, Director

William J. Bennett, Director

TWIN FALLS POWER CORPORATION LIMITED

Statement of Income and Retained Earnings for the year ended December 31, 1974

| | 1974 | 1973 |
|--|---------------------|---------------------|
| Revenue: | | |
| Sales of power | <u>\$ 9,492,000</u> | <u>\$ 8,642,000</u> |
| Expenses: | | |
| Cost of power (note 5) | 2,057,000 | 1,820,000 |
| Interest on bank loan (note 2) | 536,000 | — |
| Interest on First Mortgage Bonds | 2,052,000 | 2,160,000 |
| Depreciation | <u>1,933,000</u> | <u>1,805,000</u> |
| | <u>6,578,000</u> | <u>5,785,000</u> |
| Income before the following items | 2,914,000 | 2,857,000 |
| Interest income | <u>1,490,000</u> | <u>1,016,000</u> |
| | 4,404,000 | 3,873,000 |
| Deferred income taxes | <u>2,292,000</u> | <u>1,912,000</u> |
| Net income for the year | 2,112,000 | 1,961,000 |
| Retained earnings at beginning of year | <u>527,000</u> | <u>516,000</u> |
| | 2,639,000 | 2,477,000 |
| Dividends | <u>2,138,000</u> | <u>1,950,000</u> |
| Retained earnings at end of year | <u>\$ 501,000</u> | <u>\$ 527,000</u> |

See accompanying notes

TWIN FALLS POWER CORPORATION LIMITED

Statement of Changes in Financial Position for the year ended December 31, 1974

| | 1974 | 1973 |
|---|--------------|--------------|
| Source of funds: | | |
| From current operations: | | |
| Net income | \$ 2,112,000 | \$ 1,961,000 |
| Add expenses not requiring working capital: | | |
| Depreciation | 1,933,000 | 1,805,000 |
| Deferred income taxes | 2,292,000 | 1,912,000 |
| | 6,337,000 | 5,678,000 |
| Decrease in funds held by trustee | — | 1,000 |
| | 6,337,000 | 5,679,000 |
| Use of funds: | | |
| Plant and equipment — net | 117,000 | — |
| Wabush Terminal Expansion | 150,000 | 527,000 |
| Reduction of long-term debt | 2,110,000 | 1,995,000 |
| Dividends | 2,138,000 | 1,950,000 |
| | 4,515,000 | 4,472,000 |
| Increase in working capital | 1,822,000 | 1,207,000 |
| Working capital at beginning of year | 8,821,000 | 7,614,000 |
| Working capital at end of year | \$10,643,000 | \$ 8,821,000 |

See accompanying notes

TWIN FALLS POWER CORPORATION LIMITED

Notes to the Financial Statements for the year ended December 31, 1974

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.
- (c) The Wabush Terminal Expansion was put into service in 1974 and is depreciated using the straight-line method at a rate of 3% 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. Wabush Terminal Expansion

At the request of a customer, Twin Falls installed additional terminal station capacity at a cost to December 31, 1974, of \$4,789,000 (\$4,639,000 in 1973). This facility is financed by the bank loan which is repayable on or before January 31, 1975. Up to December 31, 1973, all interest on the bank loan was charged to the cost of the facility.

3. 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.

| | 1974 | | 1973 | |
|-------------------------------|---------------------|---------------------|---------------------|---------------------|
| | 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 | 12,978,000 | 1,847,000 | 11,362,000 | 1,592,000 |
| Outstanding December 31 | 26,522,000 | 6,153,000 | 28,138,000 | 6,408,000 |
| Due within one year | 1,707,000 | 271,000 | 1,616,000 | 255,000 |
| Long-term debt | \$24,815,000 | \$ 5,882,000 | \$26,522,000 | \$ 6,153,000 |

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

| | |
|------------|-------------|
| 1975 | \$1,978,000 |
| 1976 | 2,091,000 |
| 1977 | 2,208,000 |
| 1978 | 2,335,000 |
| 1979 | 2,468,000 |

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

4. *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 |
| | <hr/> |
| | \$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*

- (a) Rentals payable annually to Churchill Falls amount to \$305,000 and \$1.40 per installed horsepower. In addition, Twin Falls pays an annual royalty of 50 cents per horsepower year generated (as defined).
- (b) 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 may divert the flow of water from the Twin Falls plant and may use 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 in the five-year period ended March 31, 1974. In addition, Twin Falls is required to pay the rentals and royalty outlined in note 5(a), the royalty being calculated as though the power delivered by Churchill Falls to Twin Falls had been generated in the Twin Falls plant. Churchill Falls is required, at its own expense, to keep and maintain in good working order all structures, works and plant of Twin Falls.

Under the terms of an agreement in effect from January 1, 1972, Twin Falls was required to pay to Churchill Falls \$765,000 per annum for which Churchill Falls provided substantially all plant operating and normal maintenance services. This agreement was terminated on the Suspension Date.

6. *Directors and Officers*

Twin Falls has nine directors and five officers (seven in 1973) including one (three in 1973) who is a director and officer. In 1973 and 1974 no remuneration was paid by Twin Falls to the directors and officers.

Auditors' Report to the Shareholders

We have examined the balance sheet of Twin Falls Power Corporation Limited as at December 31, 1974, 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, 1974, 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 14, 1975

Financial

During 1974 Churchill Falls produced revenue from power sales which totalled \$63,994,000, compared with \$39,577,000 in 1973.

Net income after tax totalled \$20,535,000 for 1974, an increase of \$7,456,000 over the 1973 total of \$13,079,000.

Earnings accumulated for use in the business aggregated \$40,415,000 at the end of 1974.

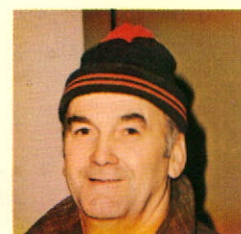
The virtual completion of development at Churchill Falls enabled CFLCo to reduce further its credit requirements from its bank consortium by \$60,000,000 during 1974, and this together with the \$50,000,000 reduction achieved during 1973 has created a new limit of \$40,000,000. At year-end, borrowings under this agreement totalled \$32,000,000.

At year-end the hydro-electric project was approximately 99 per cent complete. During 1974 direct construction costs were \$20,268,000, bringing the total amount expended to date to \$654,844,000. Aggregate capital costs of the project at the end of 1974 were \$894,000,000.

Corporate

On March 11, the Newfoundland Government signified its intention of purchasing all outstanding shares of Brinco Limited which, at that time, owned a 57 per cent share of CFLCo. Other shareholders were Hydro-Quebec, with a 34 per cent equity, and the Province of Newfoundland, with nine per cent.

Intense negotiations followed, and on March 28 both parties announced agreements whereby Brinco would sell to the Province its shareholding in CFLCo and its other Labrador water power rights for \$160 million cash. These



agreements were subsequently approved by Brinco shareholders, and ratified by the Government of Newfoundland.

One result of these transactions was a restructuring of the company management, most of which followed immediately the June 27 meeting at which the Brinco shareholders approved the sale of CFLCo. The restructuring involved both directors and officers of CFLCo.

Directors who resigned June 27 were: Sir Val Duncan, Sam Harris, H. W. Macdonell, André Monast, R. D. Mulholland, W. D. Mulholland, E. L. de Rothschild, H. L. Snyder and Sir Mark Turner.

Directors elected June 27 were: Angus A. Bruneau, J. J. Greene, D. J. Groom, J. M. Hambley, R. T. Martin, W. S. Read, and A. C. Tomlinson. Earlier in the year J. W. Beaver had been elected to the Board following the resignation of George Baker.

Your directors acknowledge with gratitude the skills and determination demonstrated by their predecessors in developing the Churchill Falls project.

Among the senior officers the changes were complete as follows: D. J. Groom replaced



W. D. Mulholland as Chairman; J. W. Beaver replaced H. W. Macdonell as President; L. A. Carrier replaced J. P. Rixon as Vice-President Finance; P. G. Bourgeau replaced M. C. Burnes as Secretary;

L. G. Burlington replaced J. W. Beaver as General Manager; W. G. Flowers replaced R. S. Corcoran as Comptroller; and P. F. S. Nobbs replaced A. M. S. White as Treasurer.

In addition, N. M. Peters, Roy Legge and R. C. Berry resigned June 27, and R. D. Boivin, April 27. All were CFLCo Vice-Presidents and none was replaced.

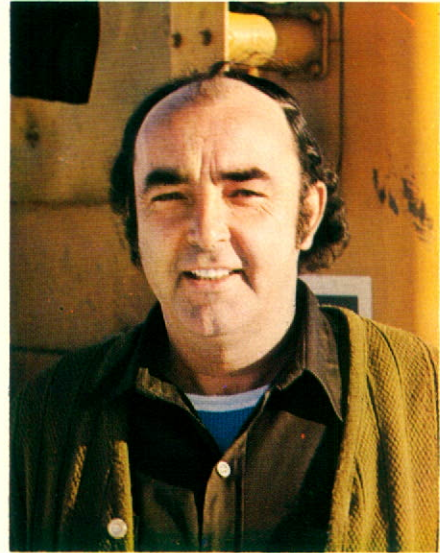
The first task facing the reorganized CFLCo staff was to implement the many things involved in separating two corporations. By year-end this was essentially complete.

Operations

Meanwhile, as an almost unnoticed back-drop to the corporate changes, the final four turbine-generator units at Churchill Falls were commissioned, respectively, March 19, April 9, June 18 and September 25. Never in any previous year had more than three units been brought on line and the achievement added further credit to the construction, commissioning and operations personnel.

With the addition of the four units the installed capacity of the plant reached 5,225,000 kilowatts, or 7,000,000 horsepower. Each unit consists of a 475,000-kilowatt generator driven by a turbine rated at 648,000 horsepower and turning at 200 revolutions per minute under a net head of 1,025 feet.

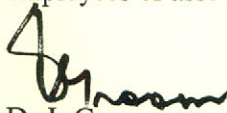
The continued reliability of the Churchill Falls system is a reflection of the high standards of performance achieved and maintained by operations personnel.



While the power facility now is complete, some work remains on community and service facilities for the plant operations staff.

This includes extension of the control and administration building, completion of a maintenance and warehouse complex, completion of two 12-unit apartment buildings, construction of 12 additional houses, conversion of the previous mess hall in main camp to a warehouse, construction of a new mine rescue building at the powerhouse access tunnel portal, and continued demobilization of the main construction camp and out camps.

On behalf of the Board we would like to acknowledge the very high standards of performance from CFLCo personnel and from employees of associated companies.



D. J. Groom
Chairman



J. W. Beaver
President and Chief Executive Officer

Montreal, Quebec
February 27, 1975

