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CHURCHILL FALLS
(LABRADOR) CORPORATION LIMITED

Annual Report 1973

HOWARD ROSS LIBRARY
OF MANAGEMENT
MCGILL UNIVERSITY

Balance Sheet as at December 31, 1973

Assets	1973	1972
Current assets:		
Cash and short-term deposits	\$ 10,534,000	\$ 11,870,000
Accounts receivable (including from affiliates \$173,000; 1972 — \$154,000)	6,672,000	5,997,000
Dividend receivable from Twin Falls Power Corporation Limited.....	238,000	288,000
Supplies and prepaid expenses	1,501,000	1,501,000
Total current assets	18,945,000	19,656,000
Investment in shares of Twin Falls Power Corporation Limited (note 1).....	2,676,000	2,672,000
Churchill Falls power project, at cost.....	798,450,000	716,242,000
Less accumulated depreciation (note 2).....	12,514,000	8,608,000
	785,936,000	707,634,000
Trans-Labrador road, less \$1,169,000 (1972 — \$584,000) written off (note 2).....	1,168,000	1,753,000
Unamortized debt discount and financing expenses (notes 3 and 8).....	7,156,000	6,730,000
	\$815,881,000	\$738,445,000
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 17,285,000	\$ 20,588,000
Royalty and rental due to the Province of Newfoundland [note 9(c)].....	2,751,000	1,094,000
Total current liabilities.....	20,036,000	21,682,000
Long-term debt (note 4)	687,277,000	625,823,000
Deferred income taxes	5,788,000	1,239,000
Shareholders' equity:		
Capital stock (note 5)	82,900,000	82,900,000
Retained earnings (note 6)	19,880,000	6,801,000
	102,780,000	89,701,000
	\$815,881,000	\$738,445,000

See accompanying notes.

On behalf of the Board:

Harry W. Macdonell, Director

Robert A. Boyd, Director



**Statement of Income and Retained Earnings
for the year ended December 31, 1973**

	1973	1972
Revenue:		
Sales of power (note 7).....	\$39,577,000	\$13,999,000
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	654,000	676,000
Total revenue.....	<u>40,966,000</u>	<u>15,410,000</u>
Expenses:		
Plant and corporate costs (note 8).....	3,745,000	1,770,000
Horsepower royalty [note 9(c)].....	1,107,000	483,000
Newfoundland rental [note 9(c)].....	1,506,000	504,000
Interest and amortization of debt discount and financing expenses (notes 3 and 8).....	12,489,000	4,494,000
Depreciation and amount written off Trans-Labrador road (note 2).....	4,491,000	2,632,000
Total expenses.....	<u>23,338,000</u>	<u>9,883,000</u>
Net income before income taxes.....	17,628,000	5,527,000
Deferred income taxes.....	4,549,000	1,239,000
Net income for the year.....	13,079,000	4,288,000
Retained earnings at beginning of year.....	6,801,000	2,513,000
Retained earnings at end of year.....	<u>\$19,880,000</u>	<u>\$ 6,801,000</u>

**Statement of Changes in Financial Position
 for the year ended December 31, 1973**

	1973	1972
Source of funds:		
From current operations:		
Net income.....	\$13,079,000	\$ 4,288,000
Amortization of debt discount and financing expenses	83,000	32,000
Depreciation and amount written off Trans-Labrador road.....	4,491,000	2,632,000
Deferred income taxes	4,549,000	1,239,000
	<u>22,202,000</u>	<u>8,191,000</u>
Excess of dividends declared over equity in net income of Twin Falls Power Corporation Limited for the year.....	—	24,000
Long-term debt:		
Bank loan	—	34,000,000
First Mortgage Bonds Series A	59,679,000	68,326,000
First Mortgage Bonds Series B.....	11,775,000	9,075,000
	<u>93,656,000</u>	<u>119,616,000</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	82,208,000	113,765,000
Trans-Labrador road.....	—	287,000
Reduction of bank loan.....	10,000,000	—
Debt discount and financing expenses	509,000	642,000
	<u>92,721,000</u>	<u>114,694,000</u>
Increase in funds.....	935,000	4,922,000
Working capital (deficiency) at beginning of year.....	(2,026,000)	(6,948,000)
Working capital (deficiency) at end of year	<u>\$ (1,091,000)</u>	<u>\$ (2,026,000)</u>

See accompanying notes.

Notes to the Financial Statements for the year ended December 31, 1973

(1) *Investment in Shares of Twin Falls Power Corporation Limited:*

Churchill Falls (Labrador) 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.

The investment in Twin Falls is carried on an equity basis. 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 of its accounts with those of Churchill Falls does not produce financial statements which are as meaningful and informative as the separate financial statements of Churchill Falls and Twin Falls.

	<u>1973</u>	<u>1972</u>
Original cost	\$2,500,000	\$2,500,000
Equity in retained earnings at beginning of year	\$172,000	\$196,000
Equity in net income for the year	654,000	676,000
	826,000	872,000
Dividends for the year	650,000	700,000
	176,000	172,000
	<u>\$2,676,000</u>	<u>\$2,672,000</u>

(2) *Depreciation and Amounts Written off Trans-Labrador Road:*

With the commencement of commercial delivery of power on May 1, 1972 under the terms of the power contract with Quebec Hydro-Electric Commission ("Power Contract"), Churchill Falls adopted the policy of providing depreciation at a rate of 1 1/2% per annum on a straight-line basis on the capital cost of the Churchill Falls Power Project ("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. During the period from January 1 to April 30, 1972, Churchill Falls provided depreciation on a basis consistent with that of prior years. The cost of the Trans-Labrador road is being written off over the four year period from January 1, 1972 to December 31, 1975.

(3) *Unamortized Debt Discount and Financing Expenses:*

With effect from May 1, 1972, debt discount and financing expenses are being amortized over the term of the First Mortgage Bonds. 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.

(4) *Long-Term Debt:*

	1973		Issued and Outstanding		1972	
	U.S. \$	Canadian \$	U.S. \$	Canadian \$		
First Mortgage Bonds:						
7 3/4% Series A due December 15, 2007 Authorized: \$500,000,000 (U.S.)	\$500,000,000	\$513,277,000	\$440,300,000	\$453,598,000		
7 7/8% Series B due December 15, 2007 Authorized: \$50,000,000		50,000,000			38,225,000	
Bank Loan: Authorized: \$100,000,000		24,000,000			34,000,000	
General Mortgage Bonds: 7 1/2% due three years after latest maturity of any First Mortgage Bonds Authorized: \$100,000,000		100,000,000			100,000,000	
		<u>\$687,277,000</u>			<u>\$625,823,000</u>	

First Mortgage Bonds

The First Mortgage Bonds Series A are carried in the accounts at the proceeds realized in Canadian dollars.

The First Mortgage Bonds are repayable in fixed semi-annual and in contingent annual sinking fund instalments commencing June, 1978. The amount payable in 1978 is estimated at \$16,000,000.

Bank Loan

Under the terms of an agreement with a consortium of Canadian banks, Churchill Falls is provided with a credit not exceeding \$100,000,000 at any time outstanding. The agreement provides for the issue of revolving 90-day notes. At December 31, 1973, the rates of interest payable on the outstanding notes were 10% as to \$6,650,000 and 9 1/2% as to \$17,350,000 (6 1/2% on \$34,000,000 at December 31, 1972), being 1/2 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.

(5) Capital Stock:

Common shares without nominal or par value authorized and issued as at December 31, 1972 and 1973 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.

(6) Dividend Restrictions:

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.

(7) Sales of Power:

Quebec Hydro-Electric Commission and Churchill Falls entered into a Power Contract dated May 12, 1969, providing for the sale of substantially all the power from the Project for an initial period of approximately 40 years with a renewal for a further period of 25 years.

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

May to November, 1972	2
December, 1972 to August, 1973	3
September to November, 1973	4
December, 1973	5

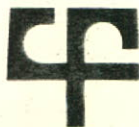
During the year Churchill Falls derived approximately \$430,000 (1972 — \$400,000) from the delivery of excess power made possible by the use of capacity not required to meet contract commitments.

(8) 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.

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

	1973	1972
Gross interest, including commitment fees	<u>\$50,885,000</u>	\$43,736,000
Less: Interest income	1,433,000	773,000
Hydro-Quebec payments (see below)	<u>13,694,000</u>	11,480,000
	<u>15,127,000</u>	12,253,000
Net interest expense	<u>35,758,000</u>	31,483,000
Allocated to capital	<u>23,352,000</u>	27,021,000
Charged to operations	12,406,000	4,462,000
Amortization of debt discount and financing expenses (note 3)	83,000	32,000
	<u>\$12,489,000</u>	\$ 4,494,000



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.

(9) *Commitments and Contingent Liabilities:*

- (a) At December 31, 1973, Churchill Falls had entered into contracts related to the Project involving expenditures after that date estimated at \$13,000,000 (\$39,000,000 at December 31, 1972). This includes an amount based on an evaluation of outstanding claims.
- (b) At December 31, 1973, 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.
- (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) 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 has given notice to Twin Falls that a suspension of certain of its rights under the sublease will become effective on a date not later than June 30, 1974, with the effect that Churchill Falls will have 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 will be 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 will be required, at its own expense, to keep and maintain in good working order all structures, works and plant of Twin Falls.

(10) *Remuneration of Directors and Officers:*

		<u>Number</u>	<u>Aggregate Remuneration</u>
Directors	1973	15	\$ 27,000
	1972	15	20,000
Officers	1973	13 (3 of whom were directors)	247,000
	1972	13 (4 of whom were directors)	217,000

In 1972 and 1973, five of the senior officers did not receive any remuneration as officers from Churchill Falls. One received remuneration from Brinco Limited and the services of the four remaining officers were provided pursuant to an agreement with Rio Tinto North American Services Limited and they have received remuneration from that company.

Auditors' Report to the Shareholders

We have examined the balance sheet of Churchill Falls (Labrador) Corporation Limited as at December 31, 1973, 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, 1973, 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, Que.,
February 20, 1974

TWIN FALLS POWER CORPORATION LIMITED

Balance Sheet as at December 31, 1973

Assets	1973	1972
Current assets:		
Cash and short-term deposits	\$15,620,000	\$14,123,000
Accounts receivable	682,000	567,000
Supplies and prepaid expenses	67,000	76,000
Total current assets	<u>16,369,000</u>	<u>14,766,000</u>
Funds held by trustee	—	1,000
Plant and equipment, at cost	59,855,000	59,855,000
Less accumulated depreciation	<u>17,682,000</u>	<u>15,877,000</u>
	42,173,000	43,978,000
Wabush Terminal Expansion (note 1)	<u>4,639,000</u>	<u>4,112,000</u>
	<u>\$63,181,000</u>	<u>\$62,857,000</u>
 Liabilities and Shareholders' Equity		
Current liabilities:		
Bank loan (note 1)	\$ 4,600,000	\$ 3,500,000
Accounts payable and accrued liabilities (including to affiliates \$132,000; 1972 — \$75,000)	240,000	900,000
Dividends payable	713,000	862,000
First Mortgage Bonds due within one year (note 2)	<u>1,995,000</u>	<u>1,890,000</u>
Total current liabilities	7,548,000	7,152,000
First Mortgage Bonds (note 2):		
5½% Series A due June 30, 1986	28,242,000	29,962,000
6¼% Series B due June 30, 1989	<u>6,634,000</u>	<u>6,909,000</u>
	34,876,000	36,871,000
Deferred income taxes	<u>12,730,000</u>	<u>10,818,000</u>
Shareholders' equity:		
Capital stock (note 3)	7,500,000	7,500,000
Retained earnings (note 2)	<u>527,000</u>	<u>516,000</u>
	8,027,000	8,016,000
	<u>\$63,181,000</u>	<u>\$62,857,000</u>

See accompanying notes.

On behalf of the Board:

Harold L. Snyder, Director

W. J. Bennett, Director

TWIN FALLS POWER CORPORATION LIMITED

Statement of Income and Retained Earnings for the year ended December 31, 1973

	1973	1972
Revenue:		
Sales of power	<u>\$8,642,000</u>	<u>\$8,656,000</u>
Expenses:		
Cost of power (note 4).....	1,820,000	1,729,000
Interest (note 2).....	2,160,000	2,261,000
Depreciation	1,805,000	1,814,000
	<u>5,785,000</u>	<u>5,804,000</u>
Income before the following items	2,857,000	2,852,000
Interest income	1,016,000	837,000
	<u>3,873,000</u>	<u>3,689,000</u>
Deferred income taxes	1,912,000	1,660,000
Net income for the year	<u>1,961,000</u>	<u>2,029,000</u>
Retained earnings at beginning of year	516,000	587,000
	<u>2,477,000</u>	<u>2,616,000</u>
Dividends	1,950,000	2,100,000
Retained earnings at end of year.....	<u>\$ 527,000</u>	<u>\$ 516,000</u>

TWIN FALLS POWER CORPORATION LIMITED

Statement of Changes in Financial Position for the year ended December 31, 1973

	1973	1972
Source of funds:		
From current operations:		
Net income.....	\$1,961,000	\$2,029,000
Depreciation	1,805,000	1,814,000
Deferred income taxes	1,912,000	1,660,000
	<u>5,678,000</u>	<u>5,503,000</u>
Decrease in funds held by trustee.....	1,000	—
	<u>5,679,000</u>	<u>5,503,000</u>
Use of funds:		
Wabush Terminal Expansion	527,000	3,569,000
Reduction of long-term debt	1,995,000	1,890,000
Dividends	1,950,000	2,100,000
Increase in funds held by trustee.....	—	1,000
	<u>4,472,000</u>	<u>7,560,000</u>
Increase (decrease) in funds	1,207,000	(2,057,000)
Working capital at beginning of year	7,614,000	9,671,000
Working capital at end of year	<u>\$8,821,000</u>	<u>\$7,614,000</u>

See accompanying notes.

TWIN FALLS POWER CORPORATION LIMITED

Notes to the Financial Statements for the year ended December 31, 1973

(1) *Wabush Terminal Expansion:*

At the request of a customer, Twin Falls Power Corporation Limited ("Twin Falls") has installed additional terminal station capacity at a cost to December 31, 1973 of \$4,639,000. This facility is financed by the bank loan which is repayable on or before February 28, 1974.

Until financial arrangements with the customer are finalized and the terminal is put into service, all interest charges relating to the bank loan are being charged to the cost of this facility and no depreciation is being written.

(2) *First Mortgage Bonds:*

The following amounts of 5 $\frac{1}{2}$ % First Mortgage Bonds Series A due June 30, 1986, and 6 $\frac{1}{4}$ % First Mortgage Bonds Series B due June 30, 1989, have been authorized, issued and retired by Twin Falls pursuant to the terms of the Deed of Trust and Mortgage ("Trust Deed"), as amended.

	1973		1972	
	Series A (US \$)	Series B (US \$)	Series A (US \$)	Series B (US \$)
Authorized	<u>\$42,500,000</u>	<u>\$10,000,000</u>	<u>\$42,500,000</u>	<u>\$10,000,000</u>
Issued	<u>39,500,000</u>	<u>8,000,000</u>	<u>39,500,000</u>	<u>8,000,000</u>
Retired	<u>11,362,000</u>	<u>1,592,000</u>	<u>9,830,000</u>	<u>1,352,000</u>
Outstanding December 31	<u>28,138,000</u>	<u>6,408,000</u>	<u>29,670,000</u>	<u>6,648,000</u>
Due within one year.....	<u>1,616,000</u>	<u>255,000</u>	<u>1,532,000</u>	<u>240,000</u>
Long-term debt.....	<u>\$26,522,000</u>	<u>\$ 6,153,000</u>	<u>\$28,138,000</u>	<u>\$ 6,408,000</u>

The outstanding Bonds are carried in the accounts at the related 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.

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

1974	\$1,871,000
1975	1,978,000
1976	2,091,000
1977	2,208,000
1978	2,335,000

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.

(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	<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.

TWIN FALLS POWER CORPORATION LIMITED

(4) *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. Twin Falls has received from Churchill Falls notice that a suspension of certain rights will become effective on a date ("Suspension Date") not later than June 30, 1974, with the effect that Churchill Falls may divert the flow of water from the Twin Falls plant and use the facilities of Twin Falls as required. In consideration for this suspension of rights, Churchill Falls will be 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 will be obliged to purchase this power at a price related to the average annual cost of operating the Twin Falls plant in the five-year period preceding the Suspension Date. In addition, the price will include the payment of the rentals and royalty as outlined in note 4(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 will be 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 is required to pay to Churchill Falls \$765,000 per annum for which Churchill Falls provides substantially all plant operating and normal maintenance services. This agreement will terminate on the Suspension Date.

(5) *Directors and Officers:*

Twin Falls has nine directors and seven officers including three who are directors and officers. In 1972 and 1973, 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, 1973 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, 1973, 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, Que.,
February 15, 1974

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