

TWIN FALLS POWER CORPORATION LIMITED
CONDENSED INTERIM FINANCIAL STATEMENTS
June 30, 2019
(Unaudited)

TWIN FALLS POWER CORPORATION LIMITED
STATEMENT OF FINANCIAL POSITION
(Unaudited)

<i>As at (thousands of Canadian dollars)</i>	Notes	June 30 2019	December 31 2018
ASSETS			
Current assets			
Cash		6,079	384
Short-term investments		-	5,486
Other receivables		18	7
Prepayments		-	13
Total assets		6,097	5,890
LIABILITIES AND EQUITY			
Current liabilities			
Other payables		16	20
Environmental liabilities		23	23
Total liabilities		39	43
Shareholders' equity			
Share capital		2,513	2,513
Retained earnings		3,545	3,334
Total equity		6,058	5,847
Total liabilities and equity		6,097	5,890

Commitments and contingencies (Note 7)

See accompanying notes

TWIN FALLS POWER CORPORATION LIMITED
STATEMENT OF PROFIT (LOSS) AND COMPREHENSIVE INCOME (LOSS)
(Unaudited)

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Six months ended	
		2019	2018	2019	2018
Finance income	3	29	24	61	40
Revenue		29	24	61	40
Operating costs	4	9	30	92	62
Depreciation		-	1	-	1
Gain on disposal of assets		-	-	(230)	-
Expenses		9	31	(138)	63
Profit (loss) before income taxes		20	(7)	199	(23)
Income tax expense (recovery)		8	(3)	(12)	(9)
Profit (loss) and comprehensive income (loss) for the period		12	(4)	211	(14)

See accompanying notes

TWIN FALLS POWER CORPORATION LIMITED
STATEMENT OF CHANGES IN EQUITY
(Unaudited)

<i>(thousands of Canadian dollars)</i>	Share Capital	Retained Earnings	Total
Balance at January 1, 2019	2,513	3,334	5,847
Total comprehensive income for the period	-	211	211
Balance at June 30, 2019	2,513	3,545	6,058
Balance at January 1, 2018	2,513	3,338	5,851
Total comprehensive loss for the period	-	(14)	(14)
Balance at June 30, 2018	2,513	3,324	5,837

TWIN FALLS POWER CORPORATION LIMITED
STATEMENT OF CASH FLOWS
(Unaudited)

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Six months ended	
		2019	2018	2019	2018
Operating activities					
Profit (loss) for the period		12	(4)	211	(14)
Adjusted to reconcile profit (loss) to cash provided from (used in) operating activities:					
Depreciation		-	1	-	1
Gain on disposal of assets		-	-	(230)	-
Current income tax expense		8	(3)	(12)	(9)
Finance income	3	(29)	(24)	(61)	(40)
		(9)	(30)	(92)	(62)
Changes in non-cash working capital balances	8	(34)	8	13	(7)
Interest received		80	55	83	58
Interest paid		-	-	(1)	(1)
Income taxes paid		-	-	(3)	(33)
Net cash provided from (used in) operating activities		37	33	-	(45)
Investing activities					
(Increase) decrease in short-term investments		(51)	(5,455)	5,465	(395)
Proceeds on disposal of assets		-	-	230	-
Net cash (used in) provided from investing activities		(51)	(5,455)	5,695	(395)
Net (decrease) increase in cash		(14)	(5,422)	5,695	(440)
Cash, beginning of period		6,093	5,843	384	861
Cash, end of period		6,079	421	6,079	421

See accompanying notes

TWIN FALLS POWER CORPORATION LIMITED
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND GOING CONCERN

Twin Falls Power Corporation Limited (Twin Falls) is incorporated under the laws of Canada and has developed a 225 megawatt (MW) hydroelectric generating plant on the Unknown River in Labrador. On December 31, 2014, the Sub-lease dated November 15, 1961 with Churchill Falls (Labrador) Corporation Limited (Churchill Falls) for the right to develop hydroelectric power on the Unknown River (the Sub-lease) expired. Twin Falls is 33.3% owned by Churchill Falls, of which Newfoundland and Labrador Hydro (Hydro) owns 65.8% and whose parent company is Nalcor Energy (Nalcor). The remaining portion is owned 49.6% by Iron Ore Company of Canada (IOC), 12.5% by Wabush Resources Inc. (Wabush Mines) and 4.6% by Wabush Iron Co. Limited (Wabush Mines). Twin Falls' head office is located at 500 Columbus Drive, St. John's, Newfoundland and Labrador, A1B 3T5, Canada.

These condensed interim financial statements have been prepared by Management on a going concern basis, which assumes Twin Falls will be able to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance and Basis of Measurement

These condensed interim financial statements have been prepared in accordance with *International Accounting Standards IAS 34 – Interim Financial Reporting* and have been prepared using accounting policies consistent with those used in the preparation of the annual audited financial statements for the year ended December 31, 2018.

These condensed interim financial statements do not include all of the disclosures normally found in Twin Falls' annual audited financial statements and should be read in conjunction with the annual audited financial statements.

These condensed interim financial statements have been prepared on a historical cost basis and are presented in Canadian dollars and all values rounded to the nearest thousand, except when otherwise noted. The Board of Directors has delegated authority to approve the condensed interim financial statements to the Audit Committee of the Board of Directors of Nalcor, which approved the financial statements on August 13, 2019.

3. FINANCE INCOME

	Three months ended		Six months ended	
<i>For the period ended June 30 (thousands of Canadian dollars)</i>	2019	2018	2019	2018
Interest on short-term investments	8	21	38	35
Bank interest	21	3	23	5
Finance income	29	24	61	40

4. OPERATING COSTS

	Three months ended		Six months ended	
<i>For the period ended June 30 (thousands of Canadian dollars)</i>	2019	2018	2019	2018
Professional fees	(8)	10	41	17
Salaries and benefits	4	7	15	19
Insurance	6	6	13	11
Audit fees	5	5	10	10
Other operating costs	2	2	13	5
	9	30	92	62

TWIN FALLS POWER CORPORATION LIMITED
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

5.1 Fair Value

The estimated fair values of financial instruments as at June 30, 2019 and December 31, 2018 are based on relevant market prices and information available at the time. Fair value estimates are based on valuation techniques which are significantly affected by the assumptions used including the amount and timing of future cash flows and discount rates reflecting various degrees of risk. As such, the fair value estimates are not necessarily indicative of the amounts that Twin Falls might receive or incur in actual market transactions.

Establishing Fair Value

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the nature of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. For assets and liabilities that are recognized at fair value on a recurring basis, Twin Falls determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no transfers between Level 1, 2 and 3 fair value measurement during the period ended June 30, 2019 and the year ended December 31, 2018.

As at June 30, 2019 and December 31, 2018 Twin Falls did not have any Level 3 instruments.

The fair value of cash, short-term investments, other receivables and other payables approximate their carrying values due to their short-term maturity.

6. RELATED PARTY TRANSACTIONS

Twin Falls enters into various transactions with its shareholders and other affiliates. These transactions occur within the normal course of operations and are measured at the exchange amount, which is the amount of consideration agreed to by the related parties. Related parties with which Twin Falls transacts are as follows:

<u>Related Party</u>	<u>Relationship</u>
Churchill Falls	33.3% shareholder of Twin Falls
IOC	49.6% shareholder of Twin Falls
Wabush Mines	17.1% shareholder of Twin Falls
Hydro	65.8% shareholder of Churchill Falls
Nalcor	100% shareholder of Hydro

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Outstanding balances due to or from related parties are non-interest bearing with no set terms of repayment, unless otherwise stated.

TWIN FALLS POWER CORPORATION LIMITED
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

7. COMMITMENTS AND CONTINGENCIES

The results of an Environmental Site Assessment in 2002 at the Twin Falls Generating Station indicated contaminants higher than guidelines in the soil and waters adjacent to the powerhouse. Remediation was not required but continued monitoring for Polychlorinated biphenyls (PCBs) and hydrocarbons was required. Monitoring occurred in 2010 and 2013. An additional sampling program was added in 2015 for dioxins and furans (D&F), due to a PCB cable fire. In 2018, fish and sediments were tested for PCBs, hydrocarbons, and D&F. Concentrations in sediment for all three were generally low. In Bonnell Creek, concentrations of all three appear to be decreasing over time. However, PCBs in sediments are still over guidelines in some areas. Concentrations of PCBs and D&F in fish exceeded guidelines. It is recommended to complete a sediment and fish sampling program every 2 to 3 years to re-evaluate concentrations of D&F and PCBs and ensure that impacts are not migrating further. Based on the decreasing trend of hydrocarbons in sediment, testing is no longer deemed a requirement. It is recommended that Bonnell Creek remain closed to fishing to mitigate risks to humans.

Twin Falls' Board of Directors is currently examining the extent, if any, of Twin Falls' responsibility for any environmental liabilities, or other obligations subsequent to 2014 when the sub-lease for the right to develop hydroelectric power expired. The outcome is not determinable at this time.

8. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Three months ended		Six months ended	
	2019	2018	2019	2018
Other receivables	(2)	-	1	5
Prepayments	6	6	13	12
Other payables	(38)	2	(1)	(24)
Changes in non-cash working capital balances	(34)	8	13	(7)