TWIN FALLS POWER CORPORATION LIMITED
FINANCIAL STATEMENTS
December 31, 2013

DIRECTORS

CHRIS KIELEY
President

WAYNE D. CHAMBERLAIN
General Counsel and Corporate Secretary
Nalcor Energy

ORAL BURRY
Manager, Long Term Planning and Asset Management
Churchill Falls (Labrador) Corporation Limited

DERRICK F. STURGE
Vice-President, Finance and Chief Financial Officer

GERARD V. McDONALD
Vice-President, Human Resources and
Organizational Effectiveness
Nalcor Energy

MAURICE McCLURE
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Iron Ore Company of Canada

PATRICK GWILLIAM
Assistant Controller
Wabush Mines

VAN ALEXOPOULOS
Director
Commercial Services
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TOLAVER RAPP
Director
Global Energy Procurement
Cliffs Natural Resources

OFFICERS

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President

DERRICK F. STURGE
Vice-President, Finance and Chief
Financial Officer

S. KENT LEGGE*
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Corporate Secretary

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*Resigned January 31, 2014

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Independent Auditor's Report

To the Directors of Twin Falls Power Corporation Limited

We have audited the accompanying financial statements of Twin Falls Power Corporation Limited, which comprise the statement of financial position as at December 31, 2013 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Twin Falls Power Corporation Limited as at December 31, 2013 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 to the financial statements which describes certain matters which indicate the existence of a material uncertainty that may cast significant doubt about Twin Falls Power Corporation Limited's ability to continue as a going concern.

Deloitte LLP

Chartered Accountants
March 3, 2014

TWIN FALLS POWER CORPORATION LIMITED
STATEMENTS OF FINANCIAL POSITION

As at December 31 (thousands of Canadian dollars)	Notes	2013	2012
ASSETS			
Current assets			
Cash and cash equivalents	5	**1,570**	844
Short-term investments		**2,977**	2,149
Trade and other receivables	6	**4,533**	2,952
Total current assets		**9,080**	5,945
Non-current assets			
Property, plant and equipment	7	**430**	472
Total assets		**9,510**	6,417
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade and other payables	8	**2,664**	1,949
Environmental liabilities	9	**1,688**	1,200
Total current liabilities		**4,352**	3,149
Non-current liabilities			
Deferred income taxes		**111**	120
Total liabilities		**4,463**	3,269
Shareholders' equity			
Issued capital	10	**2,513**	2,513
Retained earnings		**2,534**	635
Total shareholders' equity		**5,047**	3,148
Total liabilities and shareholders' equity		**9,510**	6,417

Commitments and contingencies (Note 15)

See accompanying notes

On behalf of the Board:

DIRECTOR

DIRECTOR

TWIN FALLS POWER CORPORATION LIMITED
STATEMENTS OF PROFIT AND COMPREHENSIVE INCOME

For the year ended December 31 (thousands of Canadian dollars)	Notes	2013	2012
Power sales		4,866	4,868
Revenue		4,866	4,868
Operating costs	11	(2,274)	(2,264)
Depreciation	7	(42)	(43)
Finance income	12	42	33
Profit before tax		2,592	2,594
Current income tax expense		(702)	(692)
Deferred income tax recovery		9	53
Income tax expense	18	(693)	(639)
Profit and comprehensive income for the year		1,899	1,955

See accompanying notes

TWIN FALLS POWER CORPORATION LIMITED
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31 (thousands of Canadian dollars)	Notes	Issued Capital	Retained Earnings	Total
Balance at January 1, 2013		**2,513**	**635**	**3,148**
Profit and comprehensive income for the year		**-**	**1,899**	**1,899**
Balance at December 31, 2013		**2,513**	**2,534**	**5,047**
Balance at January 1, 2012		2,513	585	3,098
Profit and comprehensive income for the year		-	1,955	1,955
Dividends	10	-	(1,905)	(1,905)
Balance at December 31, 2012		2,513	635	3,148

See accompanying notes

TWIN FALLS POWER CORPORATION LIMITED
STATEMENTS OF CASH FLOWS

For the year ended December 31 (thousands of Canadian dollars)	Notes	**2013**	2012
Cash provided by (used in)			
Operating activities			
Profit for the year		**1,899**	1,955
Adjusted for items not involving a cash flow:			
Depreciation		**42**	43
Deferred income tax recovery		**(9)**	(53)
		1,932	1,945
Changes in non-cash working capital balances	13	**(378)**	570
Net cash from operating activities		**1,554**	2,515
Investing activity			
Increase in short-term investments		**(828)**	(114)
Net cash used in investing activity		**(828)**	(114)
Financing activity			
Dividends	10	**-**	(1,905)
Net cash used in financing activity		**-**	(1,905)
Net increase in cash		**726**	496
Cash and cash equivalents at beginning of year		**844**	348
Cash and cash equivalents at end of year		**1,570**	844

Supplementary cash flow information (Note 13)

See accompanying notes

1. NATURE AND DESCRIPTION OF THE COMPANY

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. The plant has been inoperative since 1974 (Note 15).

These annual financial statements have been prepared by Management in accordance with International Financial Reporting Standards (IFRS) applicable to a going concern, which assume Twin Falls will be able to realize its assets and discharge its liabilities in the normal course of operation for the foreseeable future. There is material uncertainty and significant doubt surrounding Twin Falls' continued operation beyond December 31, 2014, as the Sub-lease dated November 15, 1961, with Churchill Falls (Labrador) Corporation (Churchill Falls) for the right to develop hydroelectric power on the Unknown River (the Sub-lease) expires (Note 15(c)). These annual financial statements do not include adjustments to the carrying values and classification of assets and liabilities that may be necessary should Twin Falls no longer be a going concern. These adjustments could be material.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance and Basis of Measurement

These annual financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB). Twin Falls has adopted accounting policies which are based on the IFRS applicable as at December 31, 2013, and includes individual IFRS, International Accounting Standards (IAS), and interpretations made by the IFRS Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC).

These financial statements have been prepared on a historical cost basis, except for available-for-sale financial assets which have been measured at fair value. The annual financial statements are presented in Canadian dollars and all values rounded to the nearest thousand, except when otherwise noted. The financial statements have been approved by the Board of Directors of Twin Falls on February 25, 2014.

2.2 Cash and Cash Equivalents and Short-Term Investments

Cash and cash equivalents and short-term investments consist of Government of Canada Treasury Bills, Bankers' Acceptances issued by Canadian Schedule 1 Chartered Banks and Term Deposits issued by Canadian Schedule 1 Chartered Banks. Interest rates on these instruments at December 31, 2013 ranged from 1.20% to 1.30% per annum (2012 - 1.34% to 1.35% per annum). Those with original maturities at date of purchase of three months or less are classified as cash equivalents whereas those with original maturities beyond three months and less than 12 months are classified as short-term investments.

2.3 Trade and Other Receivables

Trade and other receivables are classified as 'loans and receivables' and are measured at amortized cost using the effective interest method.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

2.4 Property, Plant and Equipment

Items of property, plant and equipment are recognized using the cost model and thus are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes materials, labour, contracted services, professional fees and, for qualifying assets, borrowing costs capitalized in accordance with Twin Falls' accounting policy. Costs capitalized with the related asset include all those costs directly attributable to bringing the asset into operation. When significant parts of property, plant and equipment are required to be replaced at intervals, Twin Falls recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the statement of profit and comprehensive income as incurred. Property, plant and equipment is not re-valued for financial reporting purposes. Depreciation of these assets commences when the assets are ready for their intended use.

Depreciation is calculated on a straight-line basis over the estimated useful life of 33 years.

The assets' residual values, useful lives and method of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate. The carrying value of property, plant and equipment is reviewed for impairment whenever events indicate that the carrying amounts of those assets may not be recoverable.

2.5 Impairment of Non-Financial Assets

At the end of each reporting period, Twin Falls reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, Twin Falls estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

2.6 Provisions

A provision is a liability of uncertain timing or amount. A provision is recognized if Twin Falls has a present legal obligation or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. The provision is measured at the present value of the best estimate of the expenditures expected to be required to settle the obligation using a discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. Provisions are re-measured at each balance sheet date using the current discount rate.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

2.7 Decommissioning, Restoration and/or Environmental Liabilities

Legal and constructive obligations associated with the retirement of property, plant and equipment and other environmental liabilities are recorded as liabilities when those obligations are incurred and are measured as the present value of the expected costs to settle the liability, discounted at a current pre-tax rate specific to the liability. The liability is accreted up to the date the liability will be incurred with a corresponding charge to operating expenses. The carrying amount of decommissioning, restoration and environmental liabilities is reviewed annually with changes in the estimates of timing or amount of cash flows added to or deducted from the cost of the related asset.

Twin Falls' assets are located on land sub-leased from a related party, whose rights to the land are subject to renewal into the foreseeable future. The timing of, and responsibility for, the removal of these assets have not been determined. If it is determined that the assets are to be removed by Twin Falls and it is possible to estimate the fair value of the cost of removing them, a decommissioning liability will be recognized at that time.

2.8 Income Taxes

Twin Falls follows the liability method of accounting for income taxes. Under the liability method, deferred income tax assets and liabilities are determined based on the differences between the financial reporting and tax basis of assets and liabilities, as well as the benefit of losses carried forward to future years that are probable of being realized to reduce income taxes. Assets and liabilities are measured using enacted and substantively enacted tax rates and laws that are expected to be in effect in the periods in which the deferred tax assets or liabilities are expected to be realized or settled. The effect of a change in substantively enacted income tax rates on deferred income tax assets and liabilities is recognized in income in the period that the change occurs.

2.9 Revenue Recognition

Revenue from the sale of energy is recognized when Twin Falls has transferred the significant risks and rewards of ownership to the buyer; recovery of the consideration is probable; and the amount of revenue can be reliably estimated.

2.10 Finance Income

For all financial instruments measured at amortized cost and interest bearing financial assets classified as available-for-sale, interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

2.11 Foreign Currencies

Transactions in currencies other than Twin Falls' functional currency (foreign currencies) are recognized at the average monthly rate. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates of exchange in effect at the period end date. Foreign exchange gains and losses are included in profit or loss as finance costs.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

2.12 Financial Instruments

Financial assets and financial liabilities are recognized in the statement of financial position when Twin Falls becomes a party to the contractual provisions of the instrument and are initially measured at fair value. Subsequent measurement is based on classification. Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Classification of Financial Instruments

Twin Falls has classified each of its financial instruments into the following categories: financial assets at FVTPL; loans and receivables; held-to-maturity investments; AFS financial assets; and other financial liabilities.

Cash and cash equivalents	Loans and receivables
Short-term investments	AFS financial assets
Trade and other receivables	Loans and receivables
Trade and other payables	Other financial liabilities

Financial Assets

(i) Effective Interest Method

The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

(ii) Financial Assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that Twin Falls manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

2.12 Financial Instruments (cont'd.)

Financial Assets (cont'd.)

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with Twin Falls' documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset.

(iii) Held-to-Maturity Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that Twin Falls has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

(iv) AFS Financial Assets

AFS financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the previous categories. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the fair value reserve with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified to profit or loss.

(v) Loans and Receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

2. **SIGNIFICANT ACCOUNTING POLICIES (cont'd.)**

2.12 Financial Instruments (cont'd.)

Financial Liabilities and Equity Instruments

(vi) Classification as Debt or Equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

(vii) Financial Liabilities

All financial liabilities are classified as 'other financial liabilities'. Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

2.13 Impairment of Financial Assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include Twin Falls' past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

2.13 Impairment of Financial Assets (cont'd.)

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

2.14 Derecognition of Financial Instruments

Twin Falls derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If Twin Falls neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, its retained interest in the asset and an associated liability for amounts it may have to pay is recognized. If Twin Falls retains substantially all the risks and rewards of ownership of a transferred financial asset, it continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received. Twin Falls derecognizes financial liabilities when, and only when, its obligations are discharged, cancelled or they expire.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the annual financial statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ materially from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the current and future periods if the revision affects both current and future periods.

3.1 Use of Estimates

(i) <u>Property, Plant and Equipment</u>

Amounts recorded for depreciation are based on the useful lives of Twin Falls' assets. These useful lives are management's best estimate of the service lives of these assets. Changes to these lives could materially affect the amount of depreciation recorded.

(ii) <u>Environmental Liabilities</u>
The fair value of the future expenditures required to settle legal obligations associated with environmental liabilities is recognized to the extent that they are reasonably estimable. Environmental liabilities are recorded at fair value.

4. FUTURE CHANGES IN ACCOUNTING POLICIES

Twin Falls has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments[2]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[2]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[1]

[1] Effective for annual periods beginning on or after January 1, 2015, with earlier application permitted.
[2] Deferred indefinitely.

4.1 IFRS 9 - Financial Instruments and IFRS -7 Financial Instruments Disclosures

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described as follows:

- All recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability, that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

As a result of changes to IFRS 9, amendments were also made to IFRS 7 regarding classification of Financial Instruments for disclosure purposes.

4.2 Amendments to IAS 32

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

Management continues to assess the impact of these future standards.

5. CASH AND CASH EQUIVALENTS

As at December 31, 2013 and 2012 cash and cash equivalents consist entirely of cash.

6. TRADE AND OTHER RECEIVABLES

The composition of trade and other receivables is as follows:

(thousands of Canadian dollars)	**2013**	2012
Receivables due from related parties	**4,533**	2,936
Other receivables	**-**	16
	4,533	2,952

The following is an aged analysis of receivables, net of allowances for doubtful accounts:

(thousands of Canadian dollars)	**2013**	2012
0-60 days	**4,527**	2,944
>60 days	**6**	8
	4,533	2,952

7. PROPERTY, PLANT AND EQUIPMENT

(thousands of Canadian dollars)	Hydroelectric Generation Plant	Transmission and Terminals	Service Facilities and Other	Total
Cost				
Balance at January 1, 2012	60,444	6,122	431	66,997
Balance at December 31, 2012	60,444	6,122	431	66,997
Balance at December 31, 2013	**60,444**	**6,122**	**431**	**66,997**
Depreciation and impairment				
Balance at January 1, 2012	60,444	5,712	326	66,482
Depreciation expense	-	35	8	43
Balance at December 31, 2012	60,444	5,747	334	66,525
Depreciation expense	-	34	8	42
Balance at December 31, 2013	**60,444**	**5,781**	**342**	**66,567**
Carrying value				
Balance at January 1, 2012	-	410	105	515
Balance at December 31, 2012	-	375	97	472
Balance at December 31, 2013	**-**	**341**	**89**	**430**

8. TRADE AND OTHER PAYABLES

The composition of trade and other payables is as follows:

(thousands of Canadian dollars)	**2013**	2012
Other payables	**114**	82
Payables due to related parties	**2,550**	1,867
	2,664	1,949

9. ENVIRONMENTAL LIABILITIES

During 2012, Twin Falls recognized liabilities associated with the disposal of polychlorinated biphenyls (PCB). The reconciliation of the beginning and ending carrying amount of environmental liabilities for the years ended December 31, 2013 and 2012 is as follows:

(thousands of Canadian dollars)	**2013**	2012
Environmental liabilities at beginning of year	**1,200**	-
Liabilities incurred	**1,238**	1,200
Settlements	**(750)**	-
Environmental liabilities at end of year	**1,688**	1,200

In 2013, Twin Falls incurred a revision to the environmental liabilities expenditure of $ 1,238,000 (2012 - $1,200,000). The revision included an addition to the PCB estimated disposal as well as clean-up costs associated with water contamination. These estimates are based on a preliminary review of the costs associated with PCB removal at the Twin Falls plant and may vary as a result of further study.

10. SHAREHOLDERS' EQUITY

10.1 Issued Capital

The issued Class A shares are owned by Churchill Falls and the issued Class B shares are owned by Twin Falls' present long-term customers. 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.

(thousands of Canadian dollars)	**2013**	2012
Share capital		
Authorized		
Class A shares without nominal or par value - 500,000		
Class B shares without nominal or par value - 1,000,000		
Issued, fully paid and outstanding		
Class A shares – 250,000	**838**	838
Class B shares – 500,000	**1,675**	1,675
	2,513	2,513

10.2 Dividends Paid and Proposed

(thousands of Canadian dollars)	**2013**	2012
Declared during the year		
Final dividend for prior year of $nil (2012 - $0.65 per share)	-	485
Interim dividend for current year of $nil (2012 - $1.89 per share)	-	1,420
	-	1,905

No dividends are outstanding as at December 31, 2013. At December 31, 2012, there were dividends of $434,000 included in trade and other payables.

11. OPERATING COSTS

(thousands of Canadian dollars)	**2013**	2012
Power purchased	**993**	997
Rental and royalty expense	**735**	735
Capacity expansion	**248**	248
Other operating costs	**298**	284
	2,274	2,264

12. FINANCE INCOME

(thousands of Canadian dollars)	**2013**	2012
Interest on short-term investments	**33**	26
Other interest income	**9**	7
	42	33

13. SUPPLEMENTARY CASH FLOW INFORMATION

(thousands of Canadian dollars)	**2013**	2012
Trade and other receivables	**(1,581)**	(1,645)
Trade and other payables	**715**	1,015
Environmental liabilities	**488**	1,200
Changes in non-cash working capital balances	**(378)**	570
Income taxes paid	**646**	672
Interest received	**29**	34

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

14.1 Fair Value

The estimated fair values of financial instruments 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.

The fair value of cash and cash equivalents; short-term investments; trade and other receivables; and trade and other payables approximates their carrying values due to their short-term maturity.

14.2 Financial Risk Management

Twin Falls is exposed to credit, liquidity and market risk through its operating activities.

(a) Credit Risk

Future expected cash flow from operations is exposed to credit risk due to the potential for non-payment by customers. Credit risk on sales is minimal, as sales are limited to related parties.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd.)

14.2 Financial Risk Management (cont'd.)

(a) Credit Risk (cont'd.)

Credit risk on cash and cash equivalents is minimal, as cash deposits are held by Schedule 1 Canadian Chartered Banks with a rating of A+ (Standard and Poor's). Credit risk on short-term investments is minimized by limiting holdings to high-quality, investment grade securities issued by Federal and Provincial governments, as well as bankers' acceptances and term deposits issued by Schedule 1 Canadian Chartered Banks.

(b) Liquidity Risk

Twin Falls is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. Short-term liquidity is provided through cash and cash equivalents and cash from operations. Long-term liquidity risk is minimized, on a go forward basis, by retaining all earnings.

(c) Market Risk

In the course of carrying out its operating activities, Twin Falls is exposed to possible market price movements that could impact expected future cash flow and the carrying value of certain financial assets and liabilities. Market price movements to which Twin Falls has exposure includes those relating to prevailing interest rates.

Interest Rates
Changes in prevailing interest rates will impact the fair value of short-term investments. The expected future cash flows associated with those short-term investments can also be impacted. The following table illustrates Twin Falls' exposure to a 50 basis point (0.5%) change in interest rates:

	Profit and Comprehensive Income	
(thousands of Canadian dollars)	0.5% Decrease	0.5% Increase
Short-term investments	(5)	5

15. COMMITMENTS AND CONTINGENCIES

(a) Certain rights under the Sub-lease were suspended by Churchill Falls with effect from September 30, 1974 with the result that Churchill Falls is diverting the flow of water from the Twin Falls plant and using the facilities of Twin Falls as required. In consideration for this suspension of rights, Churchill Falls is required to deliver to Twin Falls, during the unexpired term of the Sub-lease, horsepower equivalent to the installed horsepower of the Twin Falls plant. Twin Falls is obliged to purchase this power for an amount equal to the average annual cost of operating the Twin Falls plant for the five-year period ended March 31, 1974. In addition, Twin Falls is required to pay annually to Churchill Falls a rental amounting to \$305,000 and \$1.40 per installed horsepower. Twin Falls also pays Churchill Falls an annual royalty of \$0.50 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.

Under the terms of the Sub-lease, Churchill Falls is required to maintain the Twin Falls plant and equipment. The sub-lease expires December 31, 2014.

15. COMMITMENTS AND CONTINGENCIES (cont'd.)

(b) The results of an Environmental Site Assessment (ESA) conducted at the Twin Falls Generating Station indicated higher than acceptable concentrations of contaminants in the soil and waters adjacent to the powerhouse. Further testing was conducted to determine the extent of contamination. The recommendations arising from this testing indicate that remediation is not required, but that further monitoring be carried out. Monitoring was performed throughout 2010 with no remediation required. However, the 2010 sampling did indicate some increase in PCB concentrations in sediment and fish flesh in specific locations, and an increased frequency of monitoring was recommended. Further sampling was conducted in 2013, however, the consultant's report is not yet available.

(c) The Twin Falls' Board of Directors is currently examining several issues, including:

(i) Twin Falls' continued operation beyond the expiration of the sub-lease in 2014; and

(ii) The extent, if any, of Twin Falls' responsibility for any environmental liabilities, or other obligations upon the expiration of the Sub-lease in 2014.

The outcome of these deliberations is not determinable at this time.

16. RELATED PARTY TRANSACTIONS

Twin Falls enters into various transactions with its Shareholders. 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:

Related Party	Relationship
Churchill Falls	33.3% Shareholder of Twin Falls
Iron Ore Company of Canada	49.6% Shareholder of Twin Falls
Wabush Resources (Wabush Mines)	12.5% Shareholder of Twin Falls
Wabush Iron Ore Co (Wabush Mines)	4.6% Shareholder of Twin Falls
Nalcor Energy (Nalcor)	65.8% Shareholder of Churchill Falls

16. RELATED PARTY TRANSACTIONS (cont'd.)

16.1 Related Party Transactions

The amounts included in the financial statements for related party transactions are as follows:

	Churchill Falls	Iron Ore Company of Canada	Wabush Mines	Nalcor	Total
(thousands of Canadian dollars)			**2013**		
Power sales	-	**3,704**	**1,162**	-	**4,866**
Operating costs	**(6,013)**	**3,377**	**584**	**66**	**(1,986)**
Trade and other receivables	-	**3,550**	**983**	-	**4,533**
Trade and other payables	**2,476**	-	-	**74**	**2,550**
(thousands of Canadian dollars)			2012		
Power sales	-	3,704	1,164	-	4,868
Operating costs	(5,050)	2,576	419	-	(2,055)
Trade and other receivables	-	2,409	527	-	2,936
Trade and other payables	1,433	-	434	-	1,867

(a) During 2013, Twin Falls paid $2,052,000 (2012 - $2,055,000) to Churchill Falls to cover operating expenses associated with Twin Falls that were incurred by Churchill Falls, rental and royalties, and management fees.

(b) During 2013, Twin Falls recorded sales of power to IOC and Wabush Mines in the amounts of $3,704,000 (2012 - $3,704,000) and $1,162,000 (2012 - $1,164,000), respectively. As at December 31, 2013, power sales of $328,000 (2012 - $328,000) to IOC and $109,000 (2012 - $nil) to Wabush Mines are recorded in trade and other receivables.

(c) Twin Falls incurred $3,961,000 (2012 - $2,995,000) in maintenance costs. This work was performed by Churchill Falls and these costs were recovered from IOC and Wabush Mines in the amounts of $3,377,000 (2012 - $2,576,000) and $584,000 (2012 - $419,000), respectively. As at December 31, 2013, maintenance costs of $1,966,000 (2012 - $1,188,000) to IOC and $442,000 (2012 - $220,000) and to Wabush Mines are recorded in trade and other receivables.

(d) There are no dividends outstanding as at December 31, 2013. Dividends payable of $434,000 were included in trade and other payables at December 31, 2012.

(e) Trade and other receivables includes $1,688,000 (2012 - $1,200,000) associated with recovery of environmental liabilities related to PCBs. These costs are recoverable from IOC and Wabush Mines in the amounts of $1,256,000 (2012 - $893,000) and $432,000 (2012 - $307,000) respectively.

(f) During 2013, Twin Falls paid $66,000 (2012 - $nil) to Nalcor to cover operating expenses related to transition costs.

16.2 Key Management Personnel Compensation

(thousands of Canadian dollars)	**2013**	20.
Short-term employee benefits	**20**	-
Post employment benefits	**1**	-
	21	-

17. CAPITAL MANAGEMENT

Twin Falls' capital consists of shareholders' equity, specifically, issued capital and retained earnings. At present, Management is retaining all earnings in order to minimize long-term liquidity risk.

18. TAXATION

(thousands of Canadian dollars)	**2013**	2012
Net income	**2,592**	2,594
Depreciation	**42**	43
CCA	**(2)**	(2)
Net income	**2,632**	2,635
Total taxes payable	**702**	692
Future income taxes	**(9)**	(53)
Effective tax rate	**26.7%**	24.6%
Statutory tax rate	**26.7%**	26.3%