

TWIN FALLS POWER CORPORATION LIMITED
FINANCIAL STATEMENTS
December 31, 2019



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Independent Auditor's Report

To the Shareholders of Twin Falls Power Corporation Limited

Opinion

We have audited the financial statements of Twin Falls Power Corporation Limited (the "Company"), which comprise the statement of financial position as at December 31, 2019, and the statements of profit and comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually

or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte LLP

Chartered Professional Accountants
February 25, 2020

TWIN FALLS POWER CORPORATION LIMITED
STATEMENT OF FINANCIAL POSITION

| <i>As at December 31 (thousands of Canadian dollars)</i> | Notes | 2019 | 2018 |
|--|-------|--------------|--------------|
| ASSETS | | | |
| Current assets | | | |
| Cash | | 6,103 | 384 |
| Short-term investments | | - | 5,486 |
| Other receivables | | 9 | 7 |
| Prepayments | | 1 | 13 |
| Total assets | | 6,113 | 5,890 |
| LIABILITIES AND EQUITY | | | |
| Current liabilities | | | |
| Other payables | | 23 | 20 |
| Environmental liabilities | | 23 | 23 |
| Total liabilities | | 46 | 43 |
| Shareholders' equity | | | |
| Share capital | 5 | 2,513 | 2,513 |
| Retained earnings | | 3,554 | 3,334 |
| Total equity | | 6,067 | 5,847 |
| Total liabilities and equity | | 6,113 | 5,890 |

Commitments and contingencies (Note 10)

See accompanying notes

On behalf of the Board:



 DIRECTOR



 DIRECTOR

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

| <i>For the year ended December 31 (thousands of Canadian dollars)</i> | Notes | 2019 | 2018 |
|---|-------|-------|------|
| Net finance income | 6 | 122 | 93 |
| Revenue | | 122 | 93 |
| Operating costs | 7 | 139 | 79 |
| Depreciation | | - | 1 |
| (Gain) loss on disposal of assets | | (230) | 15 |
| (Recovery) expenses | | (91) | 95 |
| Profit (loss) before income taxes | | 213 | (2) |
| Income tax (recovery) expense | 12 | (7) | 2 |
| Profit (loss) and comprehensive income (loss) for the year | | 220 | (4) |

See accompanying notes

TWIN FALLS POWER CORPORATION LIMITED
STATEMENT OF CHANGES IN EQUITY

| <i>(thousands of Canadian dollars)</i> | Share Capital | Retained Earnings | Total |
|---|------------------|----------------------|--------------|
| Balance at January 1, 2019 | 2,513 | 3,334 | 5,847 |
| Total profit and comprehensive income for the year | - | 220 | 220 |
| Balance at December 31, 2019 | 2,513 | 3,554 | 6,067 |
| Balance at January 1, 2018 | 2,513 | 3,338 | 5,851 |
| Total loss and comprehensive loss for the year | - | (4) | (4) |
| Balance at December 31, 2018 | 2,513 | 3,334 | 5,847 |

TWIN FALLS POWER CORPORATION LIMITED
STATEMENT OF CASH FLOWS

| <i>For the year ended December 31 (thousands of Canadian dollars)</i> | Notes | 2019 | 2018 |
|--|-------|--------------|-------|
| Operating activities | | | |
| Profit (loss) for the year | | 220 | (4) |
| Adjustments to reconcile profit (loss) to cash provided from (used in) operating activities: | | | |
| Depreciation | | - | 1 |
| (Gain) loss on disposal of assets | | (230) | 15 |
| Income tax (recovery) expense | 12 | (7) | 3 |
| Finance income | 6 | (123) | (95) |
| Finance expense | 6 | 1 | 2 |
| Deferred income tax recovery | 12 | - | (1) |
| | | (139) | (79) |
| Changes in non-cash working capital balances | 13 | 23 | (18) |
| Interest received | | 144 | 113 |
| Interest paid | | (1) | (2) |
| Income taxes paid | | (3) | (33) |
| Net cash provided from (used in) operating activities | | 24 | (19) |
| Investing activities | | | |
| Decrease (increase) in short-term investments | | 5,465 | (458) |
| Proceeds on disposal of assets | | 230 | - |
| Net cash provided from (used in) investing activities | | 5,695 | (458) |
| Net increase (decrease) in cash | | 5,719 | (477) |
| Cash, beginning of the year | | 384 | 861 |
| Cash, end of the year | | 6,103 | 384 |

See accompanying notes

TWIN FALLS POWER CORPORATION LIMITED
NOTES TO 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 annual audited 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

2.1 Statement of Compliance and Basis of Measurement

These annual audited financial statements have been prepared in accordance with International Financial Reporting Standards (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, 2019, and includes individual IFRS, International Accounting Standards (IAS), and interpretations made by the IFRS Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC).

These annual audited financial statements have been prepared on a historical cost basis. The annual audited financial statements are presented in Canadian dollars and all values rounded to the nearest thousand, except when otherwise noted. These annual audited financial statements have been approved by the Board of Directors of Twin Falls on February 21, 2020.

2.2 Cash and Cash Equivalents and Short-Term Investments

Cash and cash equivalents consist of amounts on deposit with Schedule 1 Canadian Chartered banks, as well as highly liquid investments with maturities of three months or less. Investments with maturities greater than three months and less than twelve months are classified as short-term investments.

2.3 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 Statement of Financial Position date using the current discount rate.

2.4 Decommissioning, Restoration and 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. The obligations are discounted at a current pre-tax rate specific to the liability to represent measurement at present value. The liability is accreted up to the date the liability will be incurred with a corresponding charge to net finance income. 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 or expensed in the Statement of Profit (Loss) and Comprehensive Income (Loss) if the liability is short-term in nature.

TWIN FALLS POWER CORPORATION LIMITED
NOTES TO FINANCIAL STATEMENTS

Twin Falls' previous operating assets are located on land 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 has 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.

2.5 Income Taxes

Twin Falls follows the deferral method of accounting for income taxes. Under the deferral 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.

2.6 Financial Instruments

Classification and Initial Measurement

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.

Financial assets are classified at amortized cost, fair value through other comprehensive income (FVTOCI), fair value through profit or loss (FVTPL) or as derivatives designated as hedging instruments in an effective hedge. Financial liabilities are classified as FVTPL, amortized cost or as derivatives designated as hedging instruments in an effective hedge. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial Assets at Amortized Cost

Financial assets with contractual cash flows arising on specified dates, consisting solely of principal and interest, and that are held within a business model whose objective is to collect the contractual cash flows are subsequently measured at amortized cost using the effective interest rate method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Twin Falls' financial assets at amortized cost include cash, short-term investments, and other receivables.

Financial Liabilities at Amortized Cost

Twin Falls subsequently measures all financial liabilities at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the asset is derecognized.

Twin Falls' financial liabilities at amortized cost include other payables.

Derecognition of Financial Instruments

Twin Falls derecognizes a financial asset 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 party. The difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

Twin Falls derecognizes financial liabilities when, and only when, its obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

TWIN FALLS POWER CORPORATION LIMITED
NOTES TO FINANCIAL STATEMENTS

Impairment of Financial Assets

Twin Falls recognizes a loss allowance for expected credit losses (ECL) on investments in debt instruments that are measured at amortized cost or at FVTOCI. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

Twin Falls always recognizes lifetime ECL for trade and other receivables. The ECL on these financial assets are estimated based on Twin Falls' historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. Twin Falls also records 12-month ECL for those financial assets which have low credit risk and where the low credit risk exemption has been applied. The classes of financial assets that have been identified to have low credit risk are cash and short-term investments.

For all other financial instruments, Twin Falls recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, Twin Falls measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the annual audited 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 reviewed if the revision affects only that period or future periods.

3.1 Use of Estimates

(i) Environmental Liabilities

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.

(ii) Evaluation of Going Concern

The preparation of the annual audited financial statements requires Management to make judgments regarding the going concern of Twin Falls as previously discussed in Note 1.

TWIN FALLS POWER CORPORATION LIMITED
NOTES TO FINANCIAL STATEMENTS

4. CURRENT AND FUTURE CHANGES IN ACCOUNTING POLICIES

The following amendments have been issued and are effective for accounting periods commencing on January 1, 2020:

IAS 1 - Presentation of Financial Statements and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors (Amendments to IAS 1 and IAS 8)

IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (Amendments to IAS 1 and IAS 8)

The IASB issued amendments to IAS 1 and IAS 8 to align the definition of ‘material’ across the standards and to clarify certain aspects of the definition and to include the concept of ‘obscuring information’. The amendments are intended to improve the understanding of the existing requirements rather than to significantly impact Twin Falls’ materiality judgments.

5. SHAREHOLDERS’ EQUITY

Share Capital

The share capital of Twin Falls is summarized below. The Class A shares are entitled to four votes per share and are fully owned by Churchill Falls and the Class B shares are entitled to one vote per share but rank pari passu in all other respects.

| <i>As at December 31 (thousands of Canadian dollars)</i> | 2019 | 2018 |
|--|--------------|-------|
| 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 |

The voting rights of Twin Falls are held by Churchill Falls at 66.7%, IOC at 24.8% and Wabush Mines at 8.5%.

6. NET FINANCE INCOME

| <i>For the year ended December 31 (thousands of Canadian dollars)</i> | 2019 | 2018 |
|---|-------------|------|
| Finance income | | |
| Interest on investments | 38 | 84 |
| Bank interest | 85 | 11 |
| | 123 | 95 |
| Finance expense | | |
| Other interest expense | 1 | 2 |
| | 1 | 2 |
| Net finance income | 122 | 93 |

The effective interest rate on investments at December 31, 2019 was nil (2018 – 2.25%).

TWIN FALLS POWER CORPORATION LIMITED
NOTES TO FINANCIAL STATEMENTS

7. OPERATING COSTS

| <i>For the year ended December 31 (thousands of Canadian dollars)</i> | 2019 | 2018 |
|---|-------------|------|
| Professional fees | 60 | 33 |
| Salaries and benefits | 29 | 44 |
| Audit fees | 21 | 20 |
| Insurance | 14 | 25 |
| Other operating costs | 15 | 8 |
| Bad debt recovery | - | (51) |
| | 139 | 79 |

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

8.1 Fair Value

The estimated fair values of financial instruments as at December 31, 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 year ended December 31, 2019 and the year ended December 31, 2018.

As at December 31, 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.

8.2 Risk Management

Twin Falls is exposed to certain credit, liquidity and market price risks through its operating, financing and investing activities. Financial risk is managed in accordance with a Board-approved policy, which outlines the objectives and strategies for the management of financial risk. Permitted financial risk management strategies are aimed at minimizing the volatility of Twin Falls' expected future cash flows.

TWIN FALLS POWER CORPORATION LIMITED
NOTES TO FINANCIAL STATEMENTS

Credit Risk

Credit risk on cash and short-term investments is minimal, as cash deposits are held by a Schedule 1 Canadian Chartered Bank 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.

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 short-term investments. Long-term liquidity risk is minimized, on a go forward basis, by retaining all cash balances.

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, include 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.

9. 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.

- (a) As at December 31, 2019, Other Payables include \$4,000 (2018 – \$2,000), \$nil (2018 – \$1,000) and \$14,000 (2018 – \$nil) related to transition costs provided by Nalcor, Hydro and Churchill Falls respectively.
- (b) During 2019, Twin Falls incurred \$27,000 (2018 - \$36,000), \$2,000 (2018 - \$6,000) and \$2,000 (2018 - \$7,000) in operating expenses related to transition costs provided by Nalcor, Hydro and Churchill Falls respectively.

10. COMMITMENTS AND CONTINGENCIES

In 2018, fish and sediments were tested for Polychlorinated biphenyls (PCBs), hydrocarbons, and dioxins and furans (D&F). Concentrations in sediment for all three were generally low. 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. It is recommended that Bonnell Creek remain closed to fishing to mitigate risks to humans. The next sampling program will be in 2020/2021.

TWIN FALLS POWER CORPORATION LIMITED
NOTES TO FINANCIAL STATEMENTS

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.

11. CAPITAL MANAGEMENT

Twin Falls' capital consists of cash and shareholders' equity, specifically, share capital and retained earnings. Twin Falls' objectives when managing capital are to maintain its ability to continue as a going concern.

12. INCOME TAX (RECOVERY) EXPENSE

Income tax (recovery) expense recognized in the Statement of Profit (Loss) and Comprehensive Income (Loss) is as follows:

| <i>For the year ended December 31 (thousands of Canadian dollars)</i> | 2019 | 2018 |
|---|-------------|-------------|
| Income tax (recovery) expense | | |
| Current year | (7) | 3 |
| Origination and reversal of temporary differences | - | (1) |
| Total income tax (recovery) expense | (7) | 2 |

Income taxes differ from the amount that would be expected to be calculated by applying the applicable statutory tax rate to earnings before income taxes. The following is a reconciliation of the statutory tax rate to the effective tax rate.

| <i>For the year ended December 31 (thousands of Canadian dollars)</i> | 2019 | 2018 |
|---|--------------|--------------|
| Combined Canadian federal and provincial statutory income tax rate | 53.7% | 53.7% |
| Statutory income tax rate applied to earnings before income tax | 114 | (2) |
| Difference between loss on property, plant and equipment for accounting and amounts calculated for tax purposes | - | 5 |
| Change in deferred tax liability resulting from disposal of all property, plant and equipment for both accounting and tax purposes | - | (2) |
| Difference between gain on sale of property, plant and equipment for accounting and amounts calculated for tax purposes | (118) | - |
| Difference between tax rate in effect in current year and tax rate in effect for the year in which non-capital loss carryback applies | (3) | - |
| Other | - | 1 |
| Total income tax (recovery) expense | (7) | 2 |
| Effective tax rate | -3% | -100% |

The net deferred income tax liability has been reduced to \$nil (2018 - \$nil) as there are no longer any taxable (or deductible) temporary differences related to property, plant and equipment as all assets have been disposed of. In addition, a deductible temporary difference of \$7,598 (2018 - \$7,598) related to environmental liabilities has not been reported as a deferred tax asset as it is not probable that the deferred income tax benefit will be realized.

Twin Falls has unused net-capital loss carry-forwards of \$1,034,446 (2018 - \$1,143,811) that have no expiry date. The realization of a potential deferred income tax benefit related to these net-capital losses is uncertain and cannot be viewed as probable. Accordingly, no deferred income tax asset has been recognized for accounting purposes.

TWIN FALLS POWER CORPORATION LIMITED
NOTES TO FINANCIAL STATEMENTS

13. SUPPLEMENTARY CASH FLOW INFORMATION

| <i>For the year ended December 31 (thousands of Canadian dollars)</i> | 2019 | 2018 |
|---|-------------|-------------|
| Other receivables | 5 | 1 |
| Prepayments | 12 | (1) |
| Other payables | 6 | (18) |
| Changes in non-cash working capital balances | 23 | (18) |