NALCOR ENERGY - BULL ARM FABRICATION INC.
FINANCIAL STATEMENTS
December 31, 2015

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Independent Auditor's Report

To the Shareholder of Nalcor Energy – Bull Arm Fabrication Inc.

We have audited the accompanying financial statements of Nalcor Energy – Bull Arm Fabrication Inc., which comprise the statement of financial position as at December 31, 2015 and the statements of profit and 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 Nalcor Energy – Bull Arm Fabrication Inc. as at December 31, 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants
March 11, 2016

NALCOR ENERGY - BULL ARM FABRICATION INC.
STATEMENT OF FINANCIAL POSITION

As at December 31 (thousands of Canadian dollars)	Notes	**2015**	2014
ASSETS			
Current assets			
Cash and cash equivalents	5	**203**	1,862
Short-term investments		**907**	905
Trade and other receivables	6	**5**	6
Prepayments		**23**	21
Total current assets		**1,138**	2,794
Non-current assets			
Investment property	7	**997**	1,017
Total assets		**2,135**	3,811
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	8	**228**	555
Deferred revenue	9	**-**	1,558
Total current liabilities		**228**	2,113
Non-current liabilities			
Employee benefits liability	10	**50**	43
Derivative liabilities	15	**1,147**	424
Total liabilities		**1,425**	2,580
Shareholder's equity			
Reserves		**(1,085)**	(366)
Retained earnings		**1,795**	1,597
Total equity		**710**	1,231
Total liabilities and equity		**2,135**	3,811

Commitments and contingencies (Note 17)

See accompanying notes

On behalf of the Board:

DIRECTOR

DIRECTOR

NALCOR ENERGY - BULL ARM FABRICATION INC.
STATEMENT OF PROFIT AND COMPREHENSIVE INCOME

For the year ended December 31 (thousands of Canadian dollars)	Notes	**2015**	2014
			(Note 20)
Revenue		**20,482**	17,766
Operating costs	12	**1,264**	959
Depreciation	7	**44**	48
Net finance (income) expense	13	**(12)**	(24)
Other (income) expense	14	**2,300**	(493)
Profit for the year		**16,886**	17,276
Other comprehensive loss for the year		**(719)**	(435)
Total comprehensive income for the year		**16,167**	16,841

See accompanying notes

NALCOR ENERGY - BULL ARM FABRICATION INC.
STATEMENT OF CHANGES IN EQUITY

(thousands of Canadian dollars)	Notes	Share Capital	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
Balance at January 1, 2015		**-**	**(425)**	**59**	**1,597**	**1,231**
Profit for the year		**-**	**-**	**-**	**16,886**	**16,886**
Change in fair value of cash flow hedge[1]		**-**	**(723)**	**-**	**-**	**(723)**
Actuarial loss on employee benefits liability[2]	**10**	**-**	**-**	**4**	**-**	**4**
Total comprehensive (loss) income for the year		**-**	**(723)**	**4**	**16,886**	**16,167**
Dividends paid	**11**	**-**	**-**	**-**	**(16,688)**	**(16,688)**
Balance at December 31, 2015		**-**	**(1,148)**	**63**	**1,795**	**710**
Balance at January 1, 2014		-	-	69	629	698
Profit for the year		-	-	-	17,276	17,276
Change in fair value of cash flow hedge[1]		-	(425)	-	-	(425)
Actuarial loss on employee benefits liability[2]	10	-	-	(10)	-	(10)
Total comprehensive (loss) income for the year		-	(425)	(10)	17,276	16,841
Dividends paid	11	-	-	-	(16,308)	(16,308)
Balance at December 31, 2014		-	(425)	59	1,597	1,231

[1]Subsequently reclassified to profit or loss on derecognition
[2]Not subsequently reclassified to profit or loss

See accompanying notes

NALCOR ENERGY - BULL ARM FABRICATION INC.
STATEMENT OF CASH FLOWS

For the year ended December 31 (thousands of Canadian dollars)	Notes	**2015**	2014
Cash provided from (used in)			
Operating activities			
Profit for the year		**16,886**	17,276
Adjusted for items not involving a cash flow:			
Depreciation	7	**44**	48
Employee benefits	10	**11**	9
Unrealized gain on derivatives		**-**	(273)
		16,941	17,060
Changes in non-cash working capital balances	19	**(1,886)**	(608)
Net cash provided from operating activities		**15,055**	16,452
Investing activities			
Additions to investment property	7	**(24)**	(2)
(Increase) decrease in short-term investments		**(2)**	3
Net cash (used in) provided from investing activities		**(26)**	1
Financing activity			
Dividends paid to Nalcor Energy	11	**(16,688)**	(16,308)
Net cash used in financing activity		**(16,688)**	(16,308)
Net (decrease) increase in cash and cash equivalents		**(1,659)**	145
Cash and cash equivalents, beginning of year		**1,862**	1,717
Cash and cash equivalents, end of year		**203**	1,862

Supplementary cash flow information (Note 19)

See accompanying notes

1. DESCRIPTION OF BUSINESS

Nalcor Energy – Bull Arm Fabrication Inc. (Bull Arm Fabrication) was incorporated under the Corporations Act of Newfoundland and Labrador (the Province). Bull Arm Fabrication is a 100% owned subsidiary of Nalcor Energy (Nalcor). Bull Arm Fabrication operates on a site leased from the Province for a term of 30 years for a nominal amount of $1 per annum, which expires March 2022. Bull Arm Fabrication is Atlantic Canada's largest industrial fabrication site and has a fully integrated infrastructure to support large scale fabrication and assembly. Its facilities include onshore fabrication halls and shops, a dry dock and a deep water site. Bull Arm Fabrication's head office is located in St. John's, Newfoundland and Labrador.

Revenue and profit of Bull Arm Fabrication are generated primarily through lease arrangements for use of Bull Arm Fabrication's assets and facilities. In September 2011, Bull Arm Fabrication signed a lease agreement with a third party for use of the Bull Arm Fabrication site and facilities. The site is currently used for the construction of a gravity based structure to be used in the Hebron oil field for a lease period of 2011 to 2017.

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). Bull Arm Fabrication has adopted accounting policies which are based on the IFRS applicable as at December 31, 2015, and includes individual IFRS, International Accounting Standards (IAS), and interpretations made by the IFRS Interpretations Committee and the Standing Interpretations Committee.

These annual audited financial statements have been prepared on a historical cost basis, except for financial liabilities at fair value through profit or loss (FVTPL) and available-for-sale (AFS) financial assets which have been measured at fair value. 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 were approved by Bull Arm Fabrication's Board of Directors on March 1, 2016.

2.2 Cash and Cash Equivalents and Short-term Investments

Cash and cash equivalents consist of amounts on deposit with a Schedule 1 Canadian Chartered bank, 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. Cash and cash equivalents are measured at cost which approximates fair value, while short-term investments are measured at fair value.

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.

2.4 Investment Property

Investment property is property held for the purpose of generating rental income or capital appreciation, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. As at December 31, 2015, investment property included the Bull Arm Fabrication site and facilities.

Investment property is recognized using the cost model and thus is recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes materials, labour, contracted services, and professional fees. Costs capitalized with the related asset include all those costs directly attributable to bringing the asset into operation. When significant parts of investment property are required to be replaced at intervals, Bull Arm Fabrication 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 investment property 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. Investment property is not revalued 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 lives of the assets as follows:

Computer equipment, vehicles and office equipment	5 years
Buildings	18 years
Topsides module hall door	26 years
Visitor center	42 years

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate. The carrying value of investment property 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, Bull Arm Fabrication 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, Bull Arm Fabrication estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs 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. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from non-financial assets.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the Statement of Profit and Comprehensive Income.

2.6 Employee Benefits Liability

(i) Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. Contributions by Bull Arm Fabrication to this plan are recognized as an expense when employees have rendered service entitling them to the contributions. Assets and liabilities associated with this Plan are held with the Province.

(ii) Other Benefits

Bull Arm Fabrication provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a severance payment upon retirement.

The cost of providing these benefits is determined using the projected unit credit method, with actuarial valuations being completed every three years and extrapolated at the end of each reporting period based on service and Management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

Actuarial gains and losses of Bull Arm Fabrication's defined benefit obligation are recognized in reserves in the period in which they occur. Past service costs are recognized in operating costs as incurred.

The retirement benefit obligation recognized in the Statement of Financial Position represents the present value of the defined benefit obligation.

2.7 Provisions

A provision is a liability of uncertain timing or amount. A provision is recognized if Bull Arm Fabrication 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 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.

2.8 Decommissioning, Restoration and Environmental Liabilities

Legal and constructive obligations associated with the retirement of investment property 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 rate specific to the liability. The liability is accreted up to the date the liability will be incurred with a corresponding charge to net finance (income) expense. 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 and Comprehensive Income if the liability is short-term in nature.

2.9 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

<u>Lessor accounting</u>
Amounts due from lessees under finance leases are recognized as receivables at the amount of Bull Arm Fabrication's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on Bull Arm Fabrication's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

<u>Lessee accounting</u>
Assets held under finance leases are initially recognized as assets of Bull Arm Fabrication at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized. Contingent rental costs are recognized as operating costs in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2.10 Net Finance (Income) Expense

For all financial instruments measured at amortized cost and interest bearing financial assets classified as AFS, 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 Bull Arm Fabrication's functional currency (foreign currencies) are recognized using the exchange rate in effect at the date of transaction, approximated by the prior month end close 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 the Statement of Profit and Comprehensive Income as other (income) expense.

2.12 Income Taxes

Bull Arm Fabrication is exempt from paying income taxes under Section 149(1) (d.2) of the Income Tax Act.

2.13 Financial Instruments

Financial assets and financial liabilities are recognized in the Statement of Financial Position when Bull Arm Fabrication becomes a party to the contractual provisions of the instrument and are initially measured at fair value. Subsequent measurement is based on classification. Financial instruments are classified into the following specified categories: financial assets at FVTPL, AFS financial assets, loans and receivables, held-to-maturity investments, financial liabilities at FVTPL, financial instruments used for hedging and other financial liabilities. The classification depends on the nature and purpose of the financial instruments and is determined at the time of initial recognition.

<u>Classification of Financial Instruments</u>

Bull Arm Fabrication has classified each of its financial instruments into the following categories: loans and receivables, AFS financial assets, financial liabilities at FVTPL, financial instruments used for hedging 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
Derivative liabilities	At FVTPL and financial instruments used for hedging

(i) <u>Effective Interest Method</u>

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

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

<u>Financial Assets</u>

(ii) <u>Loans and Receivables</u>

Trade receivables, loans and other receivables with 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.

(iii) 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.

Financial Liabilities and Equity Instruments

(iv) Financial Liabilities at FVTPL
A financial liability may be classified as at FVTPL if the contracted liability contains one or more embedded derivatives, and if the embedded derivative significantly modified the cash flows or if the embedded derivative is not closely related to the host liability. Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising from re-measurement recognized in profit or loss.

(v) 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.

(vi) Derivative Instruments and Financial Instruments Used for Hedging
Derivative instruments are utilized by Bull Arm Fabrication to manage market risk. Bull Arm Fabrication's policy is not to utilize derivative instruments for speculative purposes. Derivatives are initially measured at fair value at the date the derivative contracts are entered into and are subsequently measured at their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging relationship.

Bull Arm Fabrication may choose to designate derivative instruments as hedges and apply hedge accounting if there is a high degree of correlation between the price movements in the derivative instruments and the hedged items. Bull Arm Fabrication formally documents all hedges and the related risk management objectives at the inception of the hedge. Derivative instruments that have been designated and qualify for hedge accounting are classified as either cash flow or fair value hedges.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Cash Flow Hedges
The effective portion of the gain or loss on the hedging instrument is recognized directly in other comprehensive income, while any ineffective portion is recognized immediately in the Statement of Profit and Comprehensive Income for the period.

Amounts recognized as other comprehensive income are transferred to the Statement of Profit and Comprehensive Income for the period when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs.

2.14 Derecognition of Financial Instruments
Bull Arm Fabrication 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 Bull Arm Fabrication 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 Bull Arm Fabrication 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. Bull Arm Fabrication derecognizes financial liabilities when, and

only when, its obligations are discharged, cancelled or they expire.

2.15 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
- the borrower, more probable than not, 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 Bull Arm Fabrication's 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.

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 investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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 Judgment

(i) Functional Currency

Functional currency was determined by evaluating the primary economic environment in which Bull Arm Fabrication operates. As Bull Arm Fabrication enters into transactions in multiple currencies, judgment is used in determining the functional currency. Management considered factors regarding currency of sales, costs incurred and operating and financing activities, and determined the functional currency to be Canadian Dollars.

3.2 Use of Estimates

(i) Investment Property
Amounts recorded for depreciation are based on the useful lives of Bull Arm Fabrication's 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.

Due to the nature of the property and lack of comparable market data, the fair value of Bull Arm Fabrication's investment property is determined using the present value of the future cash flows. Significant assumptions used in the determination of fair value include estimates of the amount and timing of future cash flows and the discount rate.

(ii) Employee Benefits
Bull Arm Fabrication provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a severance payment upon retirement. The expected cost of providing these other employee benefits is accounted for on an accrual basis, and has been actuarially determined using the projected unit credit method prorated on service, and Management's best estimate of salary escalation, retirement ages of employees, and expected health care costs.

(iii) Lease Revenue
Lease revenue is recognized when services have been rendered, recovery of the consideration is probable and the amount of revenue can be reliably measured. Lease revenue is recognized evenly over the period of the lease contract and may change depending on the final contract value.

4. FUTURE CHANGES IN ACCOUNTING POLICIES

Bull Arm Fabrication has not applied the following new and revised IFRS that have been issued but are not yet effective:

Amendments to IAS 1	Disclosure Initiative[1]
IFRS 9	Financial Instruments[2]
IFRS 15	Revenue from Contracts with Customers[2]
IFRS 16	Leases[3]

[1]Effective for annual periods beginning on or after January 1, 2016, with earlier application permitted.
[2]Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.
[3]Effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

4.1 Amendments to IAS 1 Disclosure Initiative
The amendments to IAS 1 give some guidance on how to apply the concept of materiality in practice. Management does not anticipate that the application of these amendments to IAS 1 will have a material impact on Bull Arm Fabrication's annual audited financial statements.

4.2 IFRS 9 Financial Instruments
IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include:

(a) impairment requirements for financial assets; and
(b) limited amendments to the classification and measurement requirements by introducing a fair value through other comprehensive income (FVTOCI) measurement category for certain simple debt instruments.

Key Requirements of IFRS 9:

- All recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortized cost or fair value. Specifically, debt instruments 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. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt instruments 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 FVTPL, IFRS 9 requires that the amount of change in the fair value of the financial liability 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. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Management anticipates that the application of IFRS 9 in the future may have a material impact on the amounts reported and disclosures made in Bull Arm Fabrication's annual audited financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until Management performs a detailed review.

4.3 IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a five-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Management anticipates that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in Bull Arm Fabrication's annual audited financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until Management performs a detailed review.

4.4 IFRS 16 Leases

On January 13, 2016, the IASB issued IFRS 16 that provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS 17 Leases and its associated interpretive guidance. Significant changes were made to lessee accounting with the distinction between operating and finance leases removed and assets and liabilities recognized in respect of all leases (subject to limited exceptions for short-term leases and leases of low value assets). In contrast, IFRS 16 does not include significant changes to the requirements for lessors. IFRS 16 is effective January 1, 2019 with earlier application permitted for companies that have also adopted IFRS 15 Revenue from Contracts with Customers.

Management anticipates that the application of IFRS 16 in the future may have a material impact on the amounts reported and disclosures made in Bull Arm Fabrication's annual audited financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until Management performs a detailed review.

5. CASH AND CASH EQUIVALENTS

As at December 31, 2015 and 2014, cash and cash equivalents consist entirely of cash. The effective interest rate on short-term investments at December 31, 2015 was 0.98% (2014 - 1.20%).

6. TRADE AND OTHER RECEIVABLES

As at December 31 (thousands of Canadian dollars)	**2015**	2014
Trade and other receivables	**149**	150
Allowance for doubtful accounts	**(144)**	(144)
	5	6

As at December 31 (thousands of Canadian dollars)	**2015**	2014
0-60 days	**5**	6

7. INVESTMENT PROPERTY

(thousands of Canadian dollars)	Topside Module Hall Door	Visitor Center	Buildings	Other	Total
Cost					
Balance at January 1, 2014	1,123	659	89	101	1,972
Additions	-	-	-	2	2
Disposals	-	-	-	(3)	(3)
Balance at December 31, 2014	1,123	659	89	100	1,971
Additions	**-**	**-**	**-**	**24**	**24**
Balance at December 31, 2015	**1,123**	**659**	**89**	**124**	**1,995**
Depreciation					
Balance at January 1, 2014	785	33	32	59	909
Depreciation	16	16	5	11	48
Disposals	-	-	-	(3)	(3)
Balance at December 31, 2014	801	49	37	67	954
Depreciation	**16**	**16**	**4**	**8**	**44**
Balance at December 31, 2015	**817**	**65**	**41**	**75**	**998**
Carrying value					
Balance at January 1, 2014	338	626	57	42	1,063
Balance at December 31, 2014	322	610	52	33	1,017
Balance at December 31, 2015	**306**	**594**	**48**	**49**	**997**

As at December 31, 2015, the fair value measurement of the investment property is categorized as a Level 3 valuation. The fair value of investment property at December 31, 2015 is estimated to be $33.8 million (2014 - $42.6 million). Due to the nature of the property and lack of comparable market data, the fair value of Bull Arm Fabrication's investment property is determined using the present value of future cash flows. Bull Arm Fabrication's estimates are based on cash flows estimated to occur between 2016 and 2030, discounted at a rate of 12.0%.

8. TRADE AND OTHER PAYABLES

As at December 31 (thousands of Canadian dollars)	**2015**	2014
Trade payables and other accruals	**164**	447
Payables due to related parties	**64**	108
	228	555

9. DEFERRED REVENUE

Deferred revenue consists of prepaid rent received from Bull Arm Fabrication's lessee. As at December 31, 2015 there was no prepaid rent (2014 - $1.6 million).

10. EMPLOYEE BENEFITS LIABILITY

10.1 Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions of $23,600 (2014 - $13,700) are expensed as incurred.

10.2 Other Benefits

Bull Arm Fabrication provides group life insurance and healthcare benefits on a cost-shared basis to retired employees, and in certain cases, their surviving spouses, in addition to a severance payment upon retirement. There were no cash payments to beneficiaries for its unfunded other employee benefits in 2015 and 2014. An actuarial valuation was performed as at December 31, 2015.

As at December 31 (thousands of Canadian dollars)	**2015**	2014
Accrued benefit obligation, beginning of year	**43**	24
Current service cost	**9**	7
Interest cost	**2**	2
Actuarial loss (gain)	**(4)**	10
Accrued benefit obligation, end of year	**50**	43

For the year ended December 31 (thousands of Canadian dollars)	**2015**	2014
Component of benefit cost		
Current service cost	**9**	7
Interest cost	**2**	2
Total benefit expense for the year	**11**	9

The significant actuarial assumptions used in measuring the accrued benefit obligations and benefit expenses are as follows:

	2015	2014
Discount rate - benefit cost	**4.20%**	5.00%
Discount rate - accrued benefit obligation	**4.10%**	4.20%
Rate of compensation increase	**3.50%**	3.50%

Assumed healthcare trend rates:

	2015	2014
Initial healthcare expense trend rate	**6.00%**	6.00%
Cost trend decline to	**4.50%**	4.50%
Year that rate reaches the rate it is assumed to remain at	**2025**	2020

A 1% change in assumed healthcare trend rates would have had the following effects:

Increase (thousands of Canadian dollars)	**2015**	2014
Current service and interest cost	**5**	4
Accrued benefit obligation	**22**	20

Decrease (thousands of Canadian dollars)	**2015**	2014
Current service and interest cost	**(3)**	(2)
Accrued benefit obligation	**(13)**	(12)

11. SHAREHOLDER'S EQUITY

11.1 Share Capital

As at December 31 (thousands of Canadian dollars)	**2015**	2014
Common shares without nominal or par value		
Authorized - 100		
Issued, fully paid and outstanding - 3	**-**	-

11.2 Dividends Paid

For the year ended December 31 (thousands of Canadian dollars)	**2015**	2014
Declared and paid during the year	**16,688**	16,308

12. OPERATING COSTS

For the year ended December 31 (thousands of Canadian dollars)	**2015**	2014
Salaries and benefits expense	**744**	648
Maintenance and materials	**23**	25
Professional services	**274**	78
Cost recoveries	**102**	96
Other operating costs	**121**	112
	1,264	959

13. NET FINANCE (INCOME) EXPENSE

For the year ended December 31 (thousands of Canadian dollars)	**2015**	2014
Finance income		
Interest on short-term investments	**(8)**	(12)
Other interest income	**(11)**	(19)
	(19)	(31)
Finance expense		
Bank fees	**7**	7
	7	7
Net finance (income) expense	**(12)**	(24)

14. OTHER (INCOME) EXPENSE

For the year ended December 31 (thousands of Canadian dollars)	**2015**	2014
Foreign exchange loss	**2,300**	616
Change in fair value of forward contracts	**-**	(273)
Other	**-**	(836)
Other (income) expense	**2,300**	(493)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

15.1 Fair Value

The estimated fair values of financial instruments as at December 31, 2015 and December 31, 2014 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 below are not necessarily indicative of the amounts that Bull Arm Fabrication might receive or incur in actual market transactions.

As a significant number of Bull Arm Fabrication's assets and liabilities do not meet the definition of a financial instrument, the fair value estimates below do not reflect the fair value of Bull Arm Fabrication as a whole.

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, Bull Arm Fabrication 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 years ended December 31, 2015 and 2014.

As at December 31, 2015 and December 31, 2014, Bull Arm Fabrication did not have any Level 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
As at December 31 (thousands of Canadian dollars)		**December 31, 2015**		December 31, 2014	
Financial liabilities					
Derivative liabilities	**2**	**1,147**	**1,147**	424	424

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

The fair values of Level 2 financial instruments are determined using quoted prices in active markets, which in some cases are adjusted for factors specific to the asset or liability. Level 2 derivative instruments are valued based on observable commodity future curves, broker quotes or other publicly available data. Level 2 fair values of other risk management assets and liabilities and long-term debt are determined using observable inputs other than unadjusted quoted prices, such as interest rate yield curves and currency rates.

15.2 Risk Management

Bull Arm Fabrication is exposed to credit, liquidity and market price risks through its operating, investing and financing activities.

Credit Risk
Bull Arm Fabrication is exposed to credit risk in the event of non-performance by counterparties to its financial instruments. Lease revenue is received from a global oil and gas company whose credit worthiness was assessed prior to execution of the lease and is monitored on an on-going basis. Bull Arm Fabrication has no history of collection issues.

Bull Arm Fabrication manages its investment credit risk exposure by restricting its investments to securities from Canadian Schedule 1 Chartered Banks.

Liquidity Risk

Bull Arm Fabrication is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. Short-term liquidity is provided through cash and cash equivalents on hand and funds from operations. All financial liabilities are current.

Market Risk

Market risk refers primarily to the risk of loss resulting from changes in interest rates, foreign exchange rates and commodity prices. Bull Arm Fabrication is not exposed to any significant commodity price risk.

Interest Rates

Exposure to changes in interest rates exists on investment income related to the short-term investment portfolios. The following table illustrates Bull Arm Fabrication's exposure to a 0.5% change in interest rates:

	Profit and Comprehensive Income	
(thousands of Canadian dollars)	0.5% Decrease	0.5% Increase
Interest on short-term investments	(1)	1

Foreign Currency

The fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rate between a foreign currency and the Canadian Dollar. Bull Arm Fabrication is exposed to foreign exchange risk when it enters into transactions to procure goods and services denominated in a foreign currency. Bull Arm Fabrication's rental agreements are denominated in US Dollars (USD). Market risk associated with fluctuations in foreign exchange rates are managed consistent with Bull Arm Fabrication's Financial Risk Management Policy.

During 2015, total rental revenue denominated in USD was $16.1 million (2014 - $16.1 million). In December 2014, Bull Arm Fabrication entered into a total of 12 forward contracts with a notional value of $18.2 million USD to mitigate USD/CAD currency exposure on its USD denominated lease revenues. These contracts provided Bull Arm Fabrication with an average fixed exchange rate of $1.14 CAD per USD on 92% of expected USD lease revenue for 2015, and an average fixed exchange rate of $1.15 CAD per USD on one month of expected lease revenue for 2016. During 2015, $2.3 million in losses from these contracts were included in other (income) expense (2014 - $nil) and $0.4 million in unrealized losses were included in other comprehensive income (2014 - $0.4 million).

In November 2015, Bull Arm Fabrication entered into a total of 13 forward contacts with a notional value of $17.5 million USD, to mitigate USD/CAD currency exposure on its USD denominated lease revenues. These contracts provide Bull Arm Fabrication with an average fixed exchange rate of $1.33 CAD per USD. Combined with the hedge contract previously in place, 100% of expected USD lease revenue for 2016 is hedged at a weighted average fixed exchange rate of $1.32 CAD per USD. In addition, the first two months of expected lease revenue for 2017 is also hedged at a weighted average fixed exchange rate of $1.33 CAD per USD. During 2015, $0.7 million in unrealized losses from these contracts were included in other comprehensive income (2014 - $nil).

As at December 31, 2015, the fair value of the derivative liability as presented on the Statement of Financial Position was $1.1 million (2014 - $0.4 million).

16. RELATED PARTY TRANSACTIONS

Bull Arm Fabrication enters into various transactions with its parent 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 Bull Arm Fabrication transacts are as follows:

Related Party	Relationship
Nalcor Energy (Nalcor)	100% shareholder of Bull Arm Fabrication
Newfoundland and Labrador Hydro (Hydro)	Wholly owned subsidiary of Nalcor
The Province	100% shareholder of Nalcor

(a) For the year ended December 31, 2015, Bull Arm Fabrication was charged $49,300 (2014 - $41,300) by Hydro for management and administrative services received.

(b) As at December 31, 2015, Bull Arm Fabrication has a payable to Nalcor of $55,800 (2014 - $89,200) related to intercompany operating costs.

(c) As at December 31, 2015, Bull Arm Fabrication has a payable to Hydro of $8,100 (2014 - $19,600) related to intercompany operating costs.

16.1 Key Management Personnel Compensation

Compensation for key management personnel, which Bull Arm Fabrication defines as its executives who have the primary authority and responsibility in planning, directing and controlling the activities of the entity, includes compensation for senior executives. Salaries and employee benefits include base salaries, performance contract payments, vehicle allowances and contributions to employee benefit plans. Post-employment benefits include contributions to the Province's Public Service Pension Plan.

For the year ended December 31 (thousands of Canadian dollars)	**2015**	2014
Salaries and employee benefits	**40**	23
Post-employment benefits	**3**	1
	43	24

17. COMMITMENTS AND CONTINGENCIES

Bull Arm Fabrication is subject to various legal proceedings and claims in the normal course of business. Although the outcome of such actions cannot be predicted with certainty, Management currently believes Bull Arm Fabrication’s exposure to such claims and litigation, to the extent not covered by insurance policies or otherwise provided for, is not expected to materially affect the financial position of Bull Arm Fabrication.

18. CAPITAL MANAGEMENT

Bull Arm Fabrication’s objective when managing capital is to maintain its ability to continue as a going concern. The focus of the capital management policy is to provide flexibility to ensure cash continues to be available to satisfy capital requirements. Prior to January 2009, net earnings received were payable to the Province. From January 2009 to December 2012, earnings were retained by Bull Arm Fabrication. In 2013, Bull Arm Fabrication implemented its Board approved dividend policy of paying dividends to Nalcor when cash and short-term investment balances exceed $1.0 million, an amount which would provide coverage for approximately 12 months of operating expenses assuming no cash inflows.

19. SUPPLEMENTARY CASH FLOW INFORMATION

For the year ended December 31 (thousands of Canadian dollars)	**2015**	2014
Trade and other receivables	**1**	(5)
Prepayments	**(2)**	(2)
Trade and other payables	**(327)**	(730)
Deferred revenue	**(1,558)**	129
Changes in non-cash working capital balances	**(1,886)**	(608)
Interest received	**18**	31
Interest paid	**7**	7

20. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year presentation. The changes have been summarized as follows:

(thousands of Canadian dollars)	Previously reported	Foreign exchange reclassification	**Reclassified balance December 31, 2015**
Net finance (income) expense	592	(616)	**(24)**
Other (income) expense	(1,109)	616	**(493)**

21. ECONOMIC DEPENDENCE

Bull Arm Fabrication is economically dependent on revenues from the lease of the site until 2017. Although there is economic dependence, revenue received is from a global oil and gas company whose credit worthiness was assessed prior to execution of the lease and is monitored on an on-going basis.