

**NALCOR ENERGY - BULL ARM FABRICATION INC.**  
**FINANCIAL STATEMENTS**  
**December 31, 2016**

## 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, 2016 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, 2016 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 7, 2017

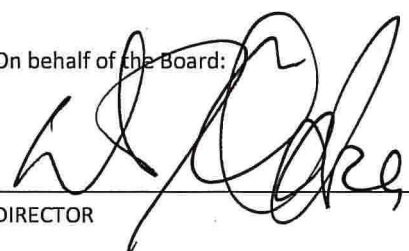
**NALCOR ENERGY - BULL ARM FABRICATION INC.  
STATEMENT OF FINANCIAL POSITION**

<i>As at December 31 (thousands of Canadian dollars)</i>	Notes	2016	2015
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	5	2,169	203
Short-term investments	5	907	907
Trade and other receivables	6	2	5
Prepayments		24	23
<b>Total current assets</b>		<b>3,102</b>	<b>1,138</b>
Non-current assets			
Investment property	7	1,000	997
<b>Total assets</b>		<b>4,102</b>	<b>2,135</b>
<b>LIABILITIES AND EQUITY</b>			
Current liabilities			
Trade and other payables	8	506	228
Deferred revenue	9	1,804	-
Derivative liabilities	16	273	1,147
<b>Total current liabilities</b>		<b>2,583</b>	<b>1,375</b>
Non-current liabilities			
Employee future benefits	10	68	50
<b>Total liabilities</b>		<b>2,651</b>	<b>1,425</b>
Shareholder's equity			
Reserves	11	(219)	(1,085)
Retained earnings		1,670	1,795
<b>Total equity</b>		<b>1,451</b>	<b>710</b>
<b>Total liabilities and equity</b>		<b>4,102</b>	<b>2,135</b>

Commitments and contingencies (Note 18)

*See accompanying notes*

On behalf of the Board:

  
\_\_\_\_\_  
DIRECTOR

  
\_\_\_\_\_  
DIRECTOR

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

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	Notes	<b>2016</b>	2015
Revenue		<b>21,367</b>	20,482
Operating costs	13	<b>1,242</b>	1,264
Depreciation	7	<b>48</b>	44
Net finance (income) expense	14	<b>(13)</b>	(12)
Other (income) expense	15	<b>172</b>	2,300
Profit for the year		<b>19,918</b>	16,886
Other comprehensive income (loss)			
<i>Total items that may or have been reclassified to profit or loss:</i>			
Net fair value gains on cash flow hedges	11	<b>1,047</b>	1,607
Reclassification adjustments related to:			
Cash flow hedges recognized in profit or loss	11	<b>(173)</b>	(2,329)
<i>Total items that will not be reclassified to profit or loss:</i>			
Actuarial (loss) gain on employee future benefits	11	<b>(8)</b>	4
Other comprehensive income (loss) for the year		<b>866</b>	(718)
Total comprehensive income for the year		<b>20,784</b>	16,168

*See accompanying notes*

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

<i>(thousands of Canadian dollars)</i>	Notes	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
<b>Balance at January 1, 2016</b>		<b>(1,147)</b>	<b>62</b>	<b>1,795</b>	<b>710</b>
<b>Profit for the year</b>		-	-	<b>19,918</b>	<b>19,918</b>
<b>Other comprehensive income</b>					
Net change in fair value of cash flow hedges	11	<b>1,047</b>	-	-	<b>1,047</b>
Net change in the fair value of financial instruments reclassified to profit or loss	11	<b>(173)</b>	-	-	<b>(173)</b>
Actuarial loss on employee future benefits	11	-	<b>(8)</b>	-	<b>(8)</b>
<b>Total comprehensive income for the year</b>		<b>874</b>	<b>(8)</b>	<b>19,918</b>	<b>20,784</b>
<b>Dividends paid</b>	<b>12</b>	-	-	<b>(20,043)</b>	<b>(20,043)</b>
<b>Balance at December 31, 2016</b>		<b>(273)</b>	<b>54</b>	<b>1,670</b>	<b>1,451</b>
Balance at January 1, 2015		(425)	58	1,597	1,230
Profit for the year		-	-	16,886	16,886
Other comprehensive income					
Net change in fair value of cash flow hedges	11	1,607	-	-	1,607
Net change in the fair value of financial instruments reclassified to profit or loss	11	(2,329)	-	-	(2,329)
Actuarial gain on employee future benefits	11	-	4	-	4
<b>Total comprehensive (loss) income for the year</b>		<b>(722)</b>	<b>4</b>	<b>16,886</b>	<b>16,168</b>
<b>Dividends paid</b>	<b>12</b>	-	-	<b>(16,688)</b>	<b>(16,688)</b>
<b>Balance at December 31, 2015</b>		<b>(1,147)</b>	<b>62</b>	<b>1,795</b>	<b>710</b>

*See accompanying notes*

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

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	Notes	2016	2015
Cash provided from (used in)			
Operating activities			
Profit for the year		<b>19,918</b>	16,886
Adjusted for items not involving a cash flow:			
Depreciation	7	<b>48</b>	44
Employee benefits	10	<b>10</b>	11
Changes in non-cash working capital balances	20	<b>2,084</b>	(1,886)
<b>Net cash provided from operating activities</b>		<b>22,060</b>	15,055
Investing activities			
Additions to investment property	7	<b>(51)</b>	(24)
Decrease in short-term investments		-	(2)
<b>Net cash used in investing activities</b>		<b>(51)</b>	(26)
Financing activity			
Dividends paid to Nalcor Energy	12	<b>(20,043)</b>	(16,688)
<b>Net cash used in financing activity</b>		<b>(20,043)</b>	(16,688)
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>1,966</b>	(1,659)
Cash and cash equivalents, beginning of year		<b>203</b>	1,862
Cash and cash equivalents, end of year		<b>2,169</b>	203
Interest received		<b>18</b>	18
Interest paid		<b>5</b>	7

*See accompanying notes*

**NALCOR ENERGY - BULL ARM FABRICATION INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**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 at 500 Columbus Drive, St. John's, Newfoundland and Labrador, A1B 0C9, Canada.

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 2018.

**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, 2016, 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 February 27, 2017.

**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, 2016, 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

## NALCOR ENERGY - BULL ARM FABRICATION INC.

### NOTES TO FINANCIAL STATEMENTS

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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 Future Benefits

##### (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 on an annual basis, 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.



## NALCOR ENERGY - BULL ARM FABRICATION INC.

### NOTES TO FINANCIAL STATEMENTS

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#### 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 Revenue Recognition

Lease revenue is recognized when services have been rendered, recovery of the consideration is probable, and the amount of revenue can be reliably measured.

#### 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.

##### Lessor accounting

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.

##### Lessee accounting

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.

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**NOTES TO FINANCIAL STATEMENTS**

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**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.

Classification of Financial Instruments

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

<u>Financial instrument</u>	<u>Category</u>
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	Financial instruments used for hedging

(i) Effective Interest Method

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.

Financial Assets

(ii) Loans and Receivables

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

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### NOTES TO FINANCIAL STATEMENTS

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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) 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.

(v) 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 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.

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### NOTES TO FINANCIAL STATEMENTS

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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) Investment Property

Bull Arm Fabrication's accounting policy relating to investment property is described in Note 2.4. In applying this policy, judgment is used in determining whether certain costs are additions to the carrying amount of investment property as opposed to repairs and maintenance. If an asset has been developed, judgment is required to identify the point at which the asset is capable of being used as intended and to identify the directly attributable borrowing costs to be included in the carrying value of the development asset. Judgment is also used in determining the appropriate componentization structure for Bull Arm Fabrication's investment property.

##### (ii) 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.

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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**

Amendments to IFRS 11 – Accounting for Acquisition of Interests in Joint Operations, IAS 1 – Disclosure Initiatives and IAS 16 and 38 – Clarification of Acceptable Methods of Depreciation and Amortization that became effective for annual periods beginning on or after January 1, 2016 did not have a material impact on Bull Arm's annual audited financial statements.

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

Amendments to IAS 7 – Disclosure Initiative<sup>1</sup>

IFRS 9 – Financial Instruments<sup>2</sup>

IFRS 15 – Revenue from Contracts with Customers<sup>2</sup>

IFRS 16 – Leases<sup>3</sup>

<sup>1</sup>Effective for annual periods beginning on or after January 1, 2017, with earlier application permitted.

<sup>2</sup>Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

<sup>3</sup>Effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

##### **4.1 Amendments to IAS 7 Disclosure Initiative**

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific format to disclose financing activities; however, an entity may fulfil the disclosure objective by providing a reconciliation between the opening and closing balances in the Statement of Financial Position for liabilities arising from financing activities.

The amendments apply prospectively. Entities are not required to present comparative information for earlier periods.

Management does not anticipate that the application of these amendments to IAS 7 will have a material impact on Bull Arm Fabrication's annual audited financial statement disclosures.

##### **4.2 IFRS 9 Financial Instruments**

In July 2014, the IASB finalized the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which contains the requirements for a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting. IFRS 9 (as revised in 2014) will supersede IAS 39

Financial Instruments: Recognition and Measurement upon its effective date.

***Phase 1: Classification and measurement of financial assets and financial liabilities***

With respect to the classification and measurement, the number of categories of financial assets under IFRS 9 has been reduced; all recognized financial assets that are currently within the scope of IAS 39 will be subsequently measured at either amortized cost or fair value under IFRS 9.

IFRS 9 also contains requirements for the classification and measurement of financial liabilities and derecognition requirements. One major change from IAS 39 relates to the presentation of changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of that liability. Under IFRS 9, such changes are presented in other comprehensive income, unless the presentation of the effect of the change in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

***Phase 2: Impairment of financial assets***

The impairment model under IFRS 9 reflects expected credit losses, as opposed to incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

***Phase 3: Hedge accounting***

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions 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 no longer required. Far more disclosure requirements about an entity's risk management activities have been introduced.

***Transitional provisions***

IFRS 9 (as revised in 2014) is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. Management has elected to adopt the standard as of the effective date, and although the classifications of existing financial instruments and related disclosures will change, Management does not anticipate material adjustments to Bull Arm Fabrication's annual audited financial statements upon transition.

**4.3 IFRS 15 Revenue from Contracts with Customers**

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It will supersede the following revenue standards and interpretations upon its effective date:

- IAS 18 Revenue;
- IAS 11 Construction Contracts;
- IFRIC 13 Customer Loyalty Programs;
- IFRIC 15 Agreements for the Construction of Real Estate;
- IFRIC 18 Transfers of Assets from Customers; and
- SIC 31 Revenue-Barter Transactions Involving Advertising Services.

As suggested by the title of the new revenue standard, IFRS 15 will only cover revenue arising from contracts with customers. Under IFRS 15, a customer of an entity is a party that has contracted with the entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. Unlike the scope of IAS 18, the recognition and measurement of interest income and dividend income from debt and equity investments are no longer within the scope of IFRS 15. Instead, they are within the scope of IAS 39 (or IFRS 9 if it is early adopted).

As mentioned above, the new standard has a single model to deal with revenue from contracts with customers. Its core principle 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.

Extensive disclosures are also required by the new standard.

Management does not anticipate that the application of IFRS 15 in the future will have a material impact on the amounts reported and disclosures made in Bull Arm Fabrication's annual audited financial statements.

#### **4.4 IFRS 16 Leases**

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It will supersede the following lease standard and interpretations upon its effective date:

- IAS 17 Leases;
- IFRIC 4 Determining Whether an Arrangement contains a Lease;
- SIC-15 Operating Leases – Incentives; and
- SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer.

This standard introduces significant changes to lessee accounting: it removes the distinction between operating and finance leases under IAS 17 and requires a lessee to recognize a right-of-use asset and a lease liability at lease commencement for all leases, except for short-term leases and leases of low value assets.

In contrast to lessee accounting, the IFRS 16 lessor accounting requirements remain largely unchanged from IAS 17, which continue to require a lessor to classify a lease as either an operating lease or a finance lease.

A lessee can apply IFRS 16 either by a full retrospective approach or a modified retrospective approach. If the latter approach is selected, an entity is not required to restate the comparative information and the cumulative effect of initially applying IFRS 16 must be presented as an adjustment to opening retained earnings.

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 provides a detailed review.

#### **5. CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS**

As at December 31, 2016 and 2015, cash and cash equivalents consist entirely of cash. The effective interest rate on short-term investments at December 31, 2016 was 1.00% (2015 – 0.98%).

**NALCOR ENERGY - BULL ARM FABRICATION INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**6. TRADE AND OTHER RECEIVABLES**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2016</b>	2015
Trade and other receivables	<b>145</b>	149
Due from related parties	<b>1</b>	-
Allowance for doubtful accounts	<b>(144)</b>	(144)
	<b>2</b>	5

**7. INVESTMENT PROPERTY**

<i>(thousands of Canadian dollars)</i>	Topside Module Hall Door	Visitor Center	Buildings	Other	Total
<b>Cost</b>					
Balance at January 1, 2015	1,123	659	89	100	1,971
Additions	-	-	-	24	24
Balance at December 31, 2015	1,123	659	89	124	1,995
<b>Additions</b>	-	-	-	<b>51</b>	<b>51</b>
<b>Balance at December 31, 2016</b>	<b>1,123</b>	<b>659</b>	<b>89</b>	<b>175</b>	<b>2,046</b>
<b>Depreciation</b>					
Balance at January 1, 2015	801	49	37	67	954
Depreciation	16	16	4	8	44
Balance at December 31, 2015	817	65	41	75	998
<b>Depreciation</b>	<b>16</b>	<b>16</b>	<b>4</b>	<b>12</b>	<b>48</b>
<b>Balance at December 31, 2016</b>	<b>833</b>	<b>81</b>	<b>45</b>	<b>87</b>	<b>1,046</b>
<b>Carrying value</b>					
Balance at January 1, 2015	322	610	52	33	1,017
Balance at December 31, 2015	306	594	48	49	997
<b>Balance at December 31, 2016</b>	<b>290</b>	<b>578</b>	<b>44</b>	<b>88</b>	<b>1,000</b>

As at December 31, 2016, the fair value measurement of the investment property is categorized as a Level 3 valuation. The fair value of the investment property at December 31, 2016 is estimated to be \$19.4 million (December 31, 2015 - \$33.8 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 2016 estimate is based on cash flows estimated to occur between 2017 and 2022, discounted at a rate of 12.0%.

**8. TRADE AND OTHER PAYABLES**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2016</b>	2015
Trade payables	<b>435</b>	164
Due to related parties	<b>71</b>	64
	<b>506</b>	228

**9. DEFERRED REVENUE**

Deferred revenue consists of prepaid rent received from Bull Arm Fabrication's lessee. As at December 31, 2016, there was \$1.8 million in prepaid rent (December 31, 2015 - \$nil).



**NALCOR ENERGY - BULL ARM FABRICATION INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**10. EMPLOYEE FUTURE BENEFITS**

**10.1 Pension Plan**

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions for the year ended December 31, 2016 of \$29,300 (2015 - \$23,600) were expensed as incurred.

**10.2 Other Benefits**

Bull Arm Fabrication provides group life insurance and health care 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 2016 and 2015. An actuarial valuation was performed as at December 31, 2016.

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2016</b>	<b>2015</b>
Accrued benefit obligation, beginning of year	<b>50</b>	43
Current service cost	-	9
Interest cost	<b>2</b>	2
Actuarial loss (gain)	<b>8</b>	(4)
Transfers	<b>8</b>	-
Accrued benefit obligation, end of year	<b>68</b>	50

When an employee transfers to a related party, the associated accrued benefit obligation is allocated to each respective party based upon years of service.

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2016</b>	<b>2015</b>
Component of benefit cost		
Current service cost	-	9
Interest cost	<b>2</b>	2
Total benefit expense for the year	<b>2</b>	11

The significant actuarial assumptions used in measuring the accrued benefit obligation and benefit expense are as follows:

	<b>2016</b>	<b>2015</b>
Discount rate - benefit cost	<b>4.10%</b>	4.20%
Discount rate - accrued benefit obligation	<b>3.90%</b>	4.10%
Rate of compensation increase	<b>3.50%</b>	3.50%

Assumed healthcare trend rates:

	<b>2016</b>	<b>2015</b>
Initial healthcare expense trend rate	<b>5.85%</b>	6.00%
Cost trend decline to	<b>4.50%</b>	4.50%
Year that rate reaches the rate it is assumed to remain at	<b>2025</b>	2025

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

<i>Increase (thousands of Canadian dollars)</i>	<b>2016</b>	<b>2015</b>
Current service and interest cost	<b>6</b>	5
Accrued benefit obligation	<b>27</b>	22
<i>Decrease (thousands of Canadian dollars)</i>	<b>2016</b>	<b>2015</b>
Current service and interest cost	<b>(4)</b>	(3)
Accrued benefit obligation	<b>(17)</b>	(13)

**NALCOR ENERGY - BULL ARM FABRICATION INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**11. ACCUMULATED OTHER COMPREHENSIVE INCOME**

The components of, and changes in, accumulated other comprehensive income are as follows:

*Items that will not be reclassified to profit or loss:*

<i>(thousands of Canadian dollars)</i>	<b>2016</b>	2015
Employee future benefits		
Balance at January 1	<b>62</b>	58
Net actuarial (losses) gains on defined benefit plan	<b>(8)</b>	4
Balance at December 31	<b>54</b>	62

*Items that may or have been reclassified to profit or loss:*

<i>(thousands of Canadian dollars)</i>	<b>2016</b>	2015
Cash flow hedges		
Balance at January 1	<b>(1,147)</b>	(425)
Fair value gains during the year	<b>1,047</b>	1,607
Amounts reclassified to profit or loss	<b>(173)</b>	(2,329)
Balance at December 31	<b>(273)</b>	(1,147)

**12. SHAREHOLDER'S EQUITY**

**12.1 Share Capital**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2016</b>	2015
Common shares without nominal or par value		
Authorized - 100		
Issued, fully paid and outstanding - 3	-	-

**12.2 Dividends Paid**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2016</b>	2015
Declared and paid during the year	<b>20,043</b>	16,688

**13. OPERATING COSTS**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2016</b>	2015
Salaries and benefits expense	<b>794</b>	744
Professional services	<b>140</b>	274
Cost recoveries	<b>126</b>	102
Advertising	<b>74</b>	12
Maintenance and materials	<b>27</b>	23
Other operating costs	<b>81</b>	109
	<b>1,242</b>	1,264

**NALCOR ENERGY - BULL ARM FABRICATION INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**14. NET FINANCE (INCOME) EXPENSE**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2016</b>	2015
Finance income		
Interest on short-term investments	<b>(9)</b>	(8)
Bank interest	<b>(10)</b>	(11)
	<b>(19)</b>	(19)
Finance costs		
Bank fees	<b>6</b>	7
	<b>6</b>	7
Net finance (income) expense	<b>(13)</b>	(12)

**15. OTHER (INCOME) EXPENSE**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2016</b>	2015
Settlement of foreign exchange forward contracts	<b>173</b>	2,329
Realized foreign exchange (gain) loss	<b>(54)</b>	288
Unrealized foreign exchange loss (gain)	<b>53</b>	(317)
Other (income) expense	<b>172</b>	2,300

**16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

**16.1 Fair Value**

The estimated fair values of financial instruments as at December 31, 2016 and December 31, 2015 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 measurements during the year ended December 31, 2016 and the year ended December 31, 2015.

**NALCOR ENERGY - BULL ARM FABRICATION INC.**  
**NOTES TO FINANCIAL STATEMENTS**

As at December 31, 2016 and December 31, 2015, Bull Arm Fabrication did not have any Level 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		December 31, 2016		December 31, 2015	
<i>(thousands of Canadian dollars)</i>					
Financial liabilities					
Derivative liabilities	2	273	273	1,147	1,147

The fair value of cash and cash equivalents, short-term investments, trade and other 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.

**16.2 Risk Management**

Bull Arm Fabrication 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, including the use of derivative contracts. Permitted financial risk management strategies are aimed at minimizing the volatility of Bull Arm Fabrication's expected future cash flows.

Credit Risk

Bull Arm Fabrication is exposed to certain 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 the execution of the lease and is monitored on an on-going basis. Bull Arm Fabrication has no history of collection issues.

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, with the exception of employee future benefits, 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	
	0.5% Decrease	0.5% Increase
<i>(thousands of Canadian dollars)</i>		
Interest on short-term investments	(3)	3

*Foreign Currency*

The fair value of future cash flows of a financial instrument will fluctuate due to changes in the 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 agreement is denominated in USD. Market risk associated with fluctuations in foreign exchange rates are managed consistent with Bull Arm Fabrication's Financial Risk Management Policy.

During 2016, total rental revenue denominated in USD was \$16.1 million (2015 - \$16.1 million). In November 2015,

## NALCOR ENERGY - BULL ARM FABRICATION INC.

### NOTES TO FINANCIAL STATEMENTS

Bull Arm Fabrication entered into a series of foreign exchange forward contracts with a notional value of \$17.5 million USD, to mitigate USD/CAD currency exposure on its USD lease revenue for 2016 and the first two months of 2017, at a weighted average fixed exchange rate of \$1.33 CAD per USD.

In December 2016, a series of an additional 12 foreign exchange contracts with a total notional value of \$16.1 million USD was entered into at a weighted average fixed exchange rate of \$1.32 CAD per USD. Combined with the hedge contracts previously in place, 100% of expected USD lease revenue for 2017, and the first two months of 2018, is hedged at a weighted average fixed exchange rate of \$1.32 CAD per USD.

During 2016, \$0.2 million in losses (2015 - \$2.3 million) have been included in other (income) expense related to the forward contracts and \$0.3 million in unrealized losses (2015 - \$1.1 million in losses) remain in other comprehensive income. As at December 31, 2016, the fair value of the derivative liabilities as presented on the Statement of Financial Position was \$0.3 million (2015 - \$1.1 million).

The components of change impacting the carrying value of derivative assets and liabilities for the years ended December 31, 2016 and 2015 are as follows:

<i>(thousands of Canadian dollars)</i>	<b>Level II</b>
<b>Balance at January 1, 2016</b>	<b>(1,147)</b>
Purchases	-
Transfers	-
	<b>(1,147)</b>
<b>Changes in other comprehensive income</b>	
Mark-to-market	<b>1,047</b>
Settlements realized in profit (loss)	<b>(173)</b>
<b>Total</b>	<b>874</b>
<b>Balance at December 31, 2016</b>	<b>(273)</b>
Balance at January 1, 2015	(425)
Purchases	-
Transfers	-
	(425)
<b>Changes in other comprehensive income</b>	
Mark-to-market	<b>1,607</b>
Settlements realized in profit (loss)	<b>(2,329)</b>
<b>Total</b>	<b>(722)</b>
<b>Balance at December 31, 2015</b>	<b>(1,147)</b>

#### 17. 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:

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

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.

## NALCOR ENERGY - BULL ARM FABRICATION INC.

### NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2016, Bull Arm Fabrication was charged \$373,600 (2015 - \$388,600) by Nalcor related to intercompany salary costs.

#### 17.1 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.

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	2016	2015
Salaries and employee benefits	19	40
Post-employment benefits	1	3
	<b>20</b>	<b>43</b>

#### 18. COMMITMENTS AND CONTINGENCIES

- (a) 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.
- (b) The minimum lease payments associated with the lease arrangement of Bull Arm Fabrication's assets and facilities to be received over the next five years will be as follows:

<i>(millions of Canadian dollars)</i>	2017	2018	2019	2020	2021	Thereafter
Minimum lease payments	22.0	3.6	-	-	-	-

#### 19. 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, together, 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.

#### 20. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	2016	2015
Trade and other receivables	3	1
Prepayments	(1)	(2)
Trade and other payables	278	(327)
Deferred revenue	1,804	(1,558)
Changes in non-cash working capital balances	<b>2,084</b>	<b>(1,886)</b>

Related to:

Operating activities	<b>2,084</b>	<b>(1,886)</b>
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**21. ECONOMIC DEPENDENCE**

Bull Arm Fabrication is economically dependent on revenues from the lease of the site until March 2018. 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.