

NALCOR ENERGY - BULL ARM FABRICATION INC.
CONDENSED INTERIM FINANCIAL STATEMENTS
March 31, 2017
(Unaudited)

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

<i>As at (thousands of Canadian dollars)</i>	Notes	March 31	December 31
		2017	2016
ASSETS			
Current assets			
Cash and cash equivalents		3,062	2,169
Short-term investments		-	907
Trade and other receivables	3	8	2
Prepayments		17	24
Total current assets		3,087	3,102
Non-current assets			
Investment property	4	987	1,000
Total assets		4,074	4,102
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		733	506
Deferred revenue	5	1,787	1,804
Derivative liabilities	12	55	273
Total current liabilities		2,575	2,583
Non-current liabilities			
Employee future benefits		73	68
Total liabilities		2,648	2,651
Shareholder's equity			
Reserves		(1)	(219)
Retained earnings		1,427	1,670
Total equity		1,426	1,451
Total liabilities and equity		4,074	4,102

Commitments and contingencies (Note 14)

See accompanying notes

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

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Notes	Three months ended	
		2017	2016
Revenue		5,335	5,558
Operating costs	9	313	312
Depreciation	4	13	11
Net finance income	10	(3)	(3)
Other (income) expense	11	(25)	462
Expenses		298	782
Profit for the period		5,037	4,776
Other comprehensive income			
<i>Total items that may or have been reclassified to profit or loss:</i>			
Net fair value gains on cash flow hedges	7	245	1,187
Reclassification adjustments related to:			
Cash flow hedges recognized in profit or loss	7	(27)	475
Other comprehensive income for the period		218	1,662
Total comprehensive income for the period		5,255	6,438

See accompanying notes

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

	Notes	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
<i>(thousands of Canadian dollars)</i>					
Balance at January 1, 2017		(273)	54	1,670	1,451
Profit for the period		-	-	5,037	5,037
Other comprehensive income					
Net change in the fair value of cash flow hedges	7	245	-	-	245
Net change in the fair value of financial instruments reclassified to profit or loss	7	(27)	-	-	(27)
Total comprehensive income for the period		218	-	5,037	5,255
Dividends paid	8	-	-	(5,280)	(5,280)
Balance at March 31, 2017		(55)	54	1,427	1,426
Balance at January 1, 2016		(1,147)	62	1,795	710
Profit for the period		-	-	4,776	4,776
Other comprehensive income					
Net change in the fair value of cash flow hedges	7	1,187	-	-	1,187
Net change in the fair value of financial instruments reclassified to profit or loss	7	475	-	-	475
Total comprehensive income for the period		1,662	-	4,776	6,438
Dividends paid	8	-	-	(5,025)	(5,025)
Balance at March 31, 2016		515	62	1,546	2,123

See accompanying notes

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

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Notes	Three months ended	
		2017	2016
Operating activities			
Profit for the period		5,037	4,776
Adjusted for items not involving a cash flow:			
Depreciation	4	13	11
Employee benefits	6	5	3
		5,055	4,790
Changes in non-cash working capital balances	15	211	2,109
Net cash provided from operating activities		5,266	6,899
Investing activity			
Decrease in short-term investments		907	907
Net cash provided from investing activity		907	907
Financing activity			
Dividends paid to Nalcor Energy	8	(5,280)	(5,025)
Net cash used in financing activity		(5,280)	(5,025)
Net increase in cash and cash equivalents		893	2,781
Cash and cash equivalents, beginning of period		2,169	203
Cash and cash equivalents, end of period		3,062	2,984
Interest received		3	3
Interest paid		2	2

See accompanying notes

NALCOR ENERGY - BULL ARM FABRICATION INC.
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

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

Statement of Compliance and Basis of Measurement

These condensed interim financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting using accounting policies consistent with those used in the preparation of the annual audited financial statements for the year ended December 31, 2016.

These condensed interim financial statements do not include all of the disclosures normally found in Bull Arm Fabrication’s annual audited financial statements and should be read in conjunction with the annual audited financial statements.

These condensed interim financial statements have been prepared on a historical cost basis, except for financial instruments at fair value through profit or loss which have been measured at fair value. The condensed interim financial statements are presented in Canadian Dollars (CAD) and all values rounded to the nearest thousand, except when otherwise noted. The Board of Directors (the Board) has delegated the authority to approve the condensed interim financial statements to the Audit Committee of the Board of Directors of Nalcor, which approved the financial statements on May 9, 2017.

3. TRADE AND OTHER RECEIVABLES

<i>As at (thousands of Canadian dollars)</i>	March 31	December 31
	2017	2016
Trade and other receivables	8	145
Due from related parties	-	1
Allowance for doubtful accounts	-	(144)
	8	2

NALCOR ENERGY - BULL ARM FABRICATION INC.
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

4. INVESTMENT PROPERTY

<i>(thousands of Canadian dollars)</i>	Topside Module Hall Door	Visitor Center	Buildings	Other	Total
Cost					
Balance at January 1, 2016	1,123	659	89	124	1,995
Additions	-	-	-	51	51
Balance at December 31, 2016	1,123	659	89	175	2,046
Balance at March 31, 2017	1,123	659	89	175	2,046
Depreciation					
Balance at January 1, 2016	817	65	41	75	998
Depreciation	16	16	4	12	48
Balance at December 31, 2016	833	81	45	87	1,046
Depreciation	4	4	1	4	13
Balance at March 31, 2017	837	85	46	91	1,059
Carrying value					
Balance at January 1, 2016	306	594	48	49	997
Balance at December 31, 2016	290	578	44	88	1,000
Balance at March 31, 2017	286	574	43	84	987

As at March 31, 2017, the fair value measurement of the investment property is categorized as a Level 3 valuation. The fair value of the investment property at March 31, 2017 is estimated to be 15.0 million (December 31, 2016 - \$19.4 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 2017 estimate is based on cash flows estimated to occur between 2017 and 2022, discounted at a rate of 12.0%.

5. DEFERRED REVENUE

Deferred revenue consists of prepaid rent received from Bull Arm Fabrication's lessee. As at March 31, 2017, there was \$1.8 million in prepaid rent (December 31, 2016 - \$1.8 million).

6. EMPLOYEE FUTURE BENEFITS

6.1 Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions for the period ended March 31, 2017, of \$10,400 (2016 - \$7,300) were expensed as incurred.

6.2 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 2017. An actuarial valuation was performed as at December 31, 2016.

NALCOR ENERGY - BULL ARM FABRICATION INC.
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Three months ended	
	2017	2016
Component of benefit cost		
Current service cost	4	2
Interest cost	1	1
Total benefit expense for the period	5	3

7. 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>	Three months ended	
	2017	2016
Employee future benefits		
Balance at January 1	54	62
Net actuarial gains (losses) on defined benefit plans	-	-
Balance at March 31	54	62

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

<i>(thousands of Canadian dollars)</i>	Three months ended	
	2017	2016
Cash flow hedges		
Balance at January 1	(273)	(1,147)
Fair value gains during the period	245	1,187
Amounts reclassified to profit or loss	(27)	475
Balance at March 31	(55)	515

8. DIVIDENDS

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Notes	Three months ended	
		2017	2016
Declared and paid during the period	13	5,280	5,025

9. OPERATING COSTS

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Three months ended	
	2017	2016
Salaries and benefits	237	216
Cost recoveries	26	35
Professional services	22	32
Maintenance and materials	6	4
Advertising	4	-
Other operating costs	18	25
	313	312

NALCOR ENERGY - BULL ARM FABRICATION INC.
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

10. NET FINANCE INCOME

	Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	2017	2016
Finance income		
Interest on short-term investments	(2)	(2)
Bank interest	(3)	(3)
	(5)	(5)
Finance costs		
Bank fees	2	2
Net finance income	(3)	(3)

11. OTHER (INCOME) EXPENSE

	Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	2017	2016
Settlement of foreign exchange contracts	(25)	475
Unrealized foreign exchange gain	-	(13)
Other (income) expense	(25)	462

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

12.1 Fair Value

The estimated fair values of financial instruments as at March 31, 2017, and December 31, 2016, 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 period ended March 31, 2017, and the year ended December 31, 2016.

NALCOR ENERGY - BULL ARM FABRICATION INC.
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

As at March 31, 2017, and December 31, 2016, Bull Arm Fabrication did not have any Level 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		March 31, 2017		December 31, 2016	
<i>(thousands of Canadian dollars)</i>					
Financial liabilities					
Derivative liabilities	2	55	55	273	273

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

12.2 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.

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 interest rate or commodity price risk.

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.

As at March 31, 2017, Bull Arm Fabrication had 11 foreign exchange forward contracts remaining, with a notional value of \$14.8 million USD and an average rate of \$1.32 CAD per USD. As these contracts have all been designated as hedged instruments, changes in fair value have been recorded in other comprehensive income. During 2017, \$25,000 in gains (2016 - \$475,000 in losses) have been included in other (income) expense related to the forward contracts and \$55,000 in unrealized losses (2016 - \$515,000 in gains) remain in other comprehensive income. As at March 31, 2017, the fair value of the derivative liabilities presented on the Statement of Financial Position was \$55,000 (December 31, 2016 - \$273,000).

The components of change impacting the carrying value of derivative assets and liabilities for the three month periods ended March 31, 2017 and 2016 are as follows:

NALCOR ENERGY - BULL ARM FABRICATION INC.
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

<i>(thousands of Canadian dollars)</i>	Level II
Balance at January 1, 2017	(273)
Purchases	-
Transfers	-
	(273)
Changes in other comprehensive income	
Mark-to-market	245
Settlements realized in profit (loss)	(27)
Total	218
Balance at March 31, 2017	(55)
Balance at January 1, 2016	(1,147)
Purchases	-
Transfers	-
	(1,147)
Changes in other comprehensive income	
Mark-to-market	1,187
Settlements realized in profit (loss)	475
Total	1,662
Balance at March 31, 2016	515

13. 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	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.

For the three month period ended March 31, 2017, Bull Arm Fabrication was charged \$59,000 (2016 - \$99,000) by Nalcor related to intercompany salary costs.

14. 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.

NALCOR ENERGY - BULL ARM FABRICATION INC.
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

(b) The minimum lease payments associated with the lease arrangement of Bull Arm Fabrication's assets and facilities over the next five years are estimated as follows:

<i>(thousands of Canadian dollars)</i>	2017	2018	2019	2020	2021	Thereafter
Minimum lease payments	16,521	3,650	-	-	-	-

15. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Three months ended	
	2017	2016
Trade and other receivables	(6)	(35)
Prepayments	7	8
Trade and other payables	227	391
Deferred revenue	(17)	1,745
Changes in non-cash working capital balances	211	2,109
Related to:		
Operating activities	211	2,109