

**NALCOR ENERGY - BULL ARM FABRICATION INC.**  
**FINANCIAL STATEMENTS**  
**December 31, 2019**

## Independent Auditor's Report

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

### Opinion

We have audited the financial statements of Bull Arm Fabrication Inc. (the "Company"), which comprise the statement of financial position as at December 31, 2019, and the statements of loss and comprehensive loss, changes in deficit and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

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

### Basis for Opinion

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

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

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

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

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

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

The signature "Deloitte LLP" is written in a cursive, handwritten style in black ink.

Chartered Professional Accountants  
February 28, 2020

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

<i>As at December 31 (thousands of Canadian dollars)</i>	Notes	<b>2019</b>	2018
<b>ASSETS</b>			
Current assets			
Cash		<b>27</b>	12
Trade and other receivables	5	<b>251</b>	103
Prepayments		<b>131</b>	166
<b>Total current assets</b>		<b>409</b>	281
Non-current assets			
Investment property	6	<b>856</b>	908
<b>Total assets</b>		<b>1,265</b>	1,189
<b>LIABILITIES AND DEFICIENCY</b>			
Current liabilities			
Trade and other payables	7	<b>3,236</b>	1,559
Current portion of deferred revenue		<b>12</b>	12
<b>Total current liabilities</b>		<b>3,248</b>	1,571
Non-current liabilities			
Deferred revenue		<b>8</b>	20
Employee future benefits	8	-	130
<b>Total liabilities</b>		<b>3,256</b>	1,721
Shareholder's deficiency			
Share capital		-	-
Reserves		-	60
Deficit		<b>(1,991)</b>	(592)
<b>Total deficiency</b>		<b>(1,991)</b>	(532)
<b>Total liabilities and deficiency</b>		<b>1,265</b>	1,189

Commitments and contingencies (Note 15)

Subsequent events (Note 18)

*See accompanying notes*

On behalf of the Board:

DIRECTOR

DIRECTOR

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

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	Notes	2019	2018
Revenue		<b>763</b>	31
Operating costs	10	<b>2,151</b>	2,151
Depreciation	6	<b>52</b>	55
Net finance expense	11	<b>2</b>	-
Other expense	12	-	19
Expenses		<b>2,205</b>	2,225
Loss for the year		<b>(1,442)</b>	(2,194)
Other comprehensive (loss) income			
<i>Total items that will not be reclassified to profit or loss:</i>			
Actuarial (loss) gain on employee future benefits		<b>(17)</b>	17
Other comprehensive (loss) income for the year		<b>(17)</b>	17
Total comprehensive loss for the year		<b>(1,459)</b>	(2,177)

*See accompanying notes*

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

<i>(thousands of Canadian dollars)</i>	<b>Employee Benefit Reserve</b>	<b>(Deficit) Retained Earnings</b>	<b>Total</b>
<b>Balance at January 1, 2019</b>	<b>60</b>	<b>(592)</b>	<b>(532)</b>
<b>Transfer of actuarial reserve upon extinguishment of liability</b>	<b>(60)</b>	<b>60</b>	<b>-</b>
<b>Loss for the year</b>	<b>-</b>	<b>(1,442)</b>	<b>(1,442)</b>
<b>Other comprehensive loss</b>	<b>-</b>	<b>(17)</b>	<b>(17)</b>
<b>Total comprehensive loss for the year</b>	<b>(60)</b>	<b>(1,399)</b>	<b>(1,459)</b>
<b>Balance at December 31, 2019</b>	<b>-</b>	<b>(1,991)</b>	<b>(1,991)</b>
Balance at January 1, 2018	43	1,602	1,645
Loss for the year	-	(2,194)	(2,194)
Other comprehensive loss	17	-	17
Total comprehensive income (loss) for the year	17	(2,194)	(2,177)
Balance at December 31, 2018	60	(592)	(532)

*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	2019	2018
Operating activities			
Loss for the year		<b>(1,442)</b>	(2,194)
Adjustments to reconcile loss to cash provided from (used in) operating activities:			
Depreciation	6	<b>52</b>	55
Employee benefits	8	<b>(147)</b>	6
Finance income	11	<b>(1)</b>	(2)
Finance expense	11	<b>3</b>	2
Loss on disposal of investment property		-	19
Other		-	1
Changes in non-cash working capital balances	17	<b>1,552</b>	1,089
		<b>17</b>	(1,024)
Interest received		<b>1</b>	2
Interest paid		<b>(3)</b>	(3)
<b>Net cash provided from (used in) operating activities</b>		<b>15</b>	<b>(1,025)</b>
Investing activities			
Proceeds on disposal of investment property		-	5
Changes in non-cash working capital balances	17	-	(4)
<b>Net cash provided from investing activities</b>		<b>-</b>	<b>1</b>
Net increase (decrease) in cash		<b>15</b>	(1,024)
Cash, beginning of the year		<b>12</b>	1,036
<b>Cash, end of the year</b>		<b>27</b>	<b>12</b>

*See accompanying notes*

**NALCOR ENERGY - BULL ARM FABRICATION INC.**  
**NOTES TO THE 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 the use of Bull Arm Fabrication's assets and facilities. Through its request for proposal (RFP) for future site use two proposals are currently under evaluation. While the RFP is ongoing Bull Arm Fabrication continues to entertain immediate short-term opportunities which has resulted in both property and equipment lease agreements, including leases with DF Barnes Services for the warm stacking of the West Aquarius and the Transocean Barents drill rigs and the cold stacking of the Transocean Goodrich.

**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, 2019, 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. 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 25, 2020.

**2.2 Cash**

Cash consists of amounts on deposit with a Schedule 1 Canadian Chartered bank.

**2.3 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, 2019, 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 Loss and Comprehensive Loss 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.



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

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Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	18 years
Topsides module hall door	26 years
Visitor center	42 years
Other	5 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.

**2.4 Impairment of Non-Financial Assets**

Property and equipment and other non-financial assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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. The recoverable amount is the higher of fair value less costs of disposal 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 and an impairment loss is recognized immediately in the Statement of Loss and Comprehensive Loss

**2.5 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 retirement allowance.

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 THE FINANCIAL STATEMENTS

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#### 2.6 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.

#### 2.7 Revenue Recognition

##### 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.

#### 2.8 Leasing

##### **Lessor Accounting**

Leases for which Bull Arm Fabrication is a lessor, are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When Bull Arm Fabrication is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

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.

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 reporting periods so as to reflect a constant periodic rate of return on Bull Arm Fabrication's net investment outstanding in respect of the leases.

When a contract includes lease and non-lease components, Bull Arm Fabrication applies *IFRS 15 – Revenue from Contracts with Customers*, to allocate the consideration under the contract to each component.

#### 2.9 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 Loss and Comprehensive Loss as other expense.

#### 2.10 Income Taxes

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

#### 2.11 Financial Instruments

##### Classification and Initial Measurement

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.

## NALCOR ENERGY - BULL ARM FABRICATION INC.

### NOTES TO THE FINANCIAL STATEMENTS

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

#### Financial Assets at Amortized Cost

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

Bull Arm Fabrication's financial assets at amortized cost include cash and trade and other receivables.

#### Financial Liabilities at Amortized Cost

Bull Arm Fabrication subsequently measures all financial liabilities at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liability is derecognized.

Bull Arm Fabrication's financial liabilities at amortized cost include trade and other payables.

#### Derecognition of Financial Instruments

Bull Arm Fabrication derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

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

#### Impairment of Financial Assets

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

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

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

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

### **3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

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

#### **3.1 Use of Judgment**

(i) Investment Property

Bull Arm Fabrication's accounting policy relating to investment property is described in Note 2.3. 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.

The fair value of Bull Arm Fabrication's investment property is determined using the fair value of assets.

(ii) Employee Future 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.

### **4. FUTURE CHANGES IN ACCOUNTING POLICIES**

The following is a list of standards/interpretations that have been issued and are effective for accounting periods commencing on January 1, 2019 or January 1, 2020, as specified.

- IFRS 16 – Leases<sup>1</sup>
- IAS 1 – Presentation of Financial Statements<sup>2</sup> and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors<sup>2</sup> (Amendments to IAS 1 and IAS 8)

<sup>1</sup> Effective for annual periods beginning on or after January 1, 2019.

<sup>2</sup> Effective for annual periods beginning on or after January 1, 2020.

## NALCOR ENERGY - BULL ARM FABRICATION INC.

### NOTES TO THE FINANCIAL STATEMENTS

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#### 4.1 IFRS 16 – Leases

Effective January 1, 2019 Bull Arm Fabrication adopted *IFRS 16 – Leases* which introduces significant changes to lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low-value assets.

Bull Arm Fabrication has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under *IAS 17 – Leases* and *IFRIC 4 – Determining Whether an Arrangement contains a Lease*.

#### Impact of the new definition of a lease

Bull Arm Fabrication has not elected to apply the practical expedient available on transition to IFRS 16, not to reassess whether a contract is or contains a lease at the date of initial application. In preparation for the first-time application of IFRS 16, Bull Arm Fabrication has carried out an implementation project which has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for Bull Arm Fabrication.

#### Impact on Lessee Accounting

##### Former operating leases

IFRS 16 changes how Bull Arm Fabrication accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet.

Applying IFRS 16, for all leases (except as noted below), Bull Arm Fabrication:

- a) recognizes right-of-use assets and lease liabilities in the Statement of Financial Position, initially measured at the present value of future lease payments;
- b) recognizes depreciation of right-of-use assets and interest on lease liabilities in the Statement of Loss and Comprehensive Loss; and
- c) separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the Statement of Cash Flows.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), Bull Arm Fabrication has opted to recognize a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within operating costs in the Statement of Loss and Comprehensive Loss.

##### Former finance leases

The main difference between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of residual value guarantees provided by a lessee to a lessor. Bull Arm Fabrication did not have any leases previously accounted for as finance leases under IAS 17, therefore, this change did not have an effect on its annual audited financial statements.

#### Impact on Lessor Accounting

IFRS 16 does not substantially change how a lessor accounts for leases. The changes to lessor accounting did not have an effect on its annual audited financial statements.

#### Financial impact of the application of IFRS 16

The adoption of IFRS 16 had no impact on Bull Arm Fabrication financial statements.

## NALCOR ENERGY - BULL ARM FABRICATION INC.

### NOTES TO THE FINANCIAL STATEMENTS

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

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

#### 5. TRADE AND OTHER RECEIVABLES

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2019</b>	2018
Trade and other receivables	<b>251</b>	103

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2019</b>	2018
0-60 days	<b>251</b>	62
60+ days	-	41
	<b>251</b>	103

#### 6. INVESTMENT PROPERTY

<i>(thousands of Canadian dollars)</i>	Module Hall Door	Visitor Center	Buildings	Other	Total
<b>Cost</b>					
Balance at January 1, 2018	1,123	659	89	184	2,055
Disposals	-	-	-	(62)	(62)
Balance at December 31, 2018	1,123	659	89	122	1,993
<b>Disposals</b>	-	-	-	<b>(4)</b>	<b>(4)</b>
<b>Balance at December 31, 2019</b>	<b>1,123</b>	<b>659</b>	<b>89</b>	<b>118</b>	<b>1,989</b>
<b>Depreciation</b>					
Balance at January 1, 2018	849	97	49	73	1,068
Depreciation	16	16	5	18	55
Disposals	-	-	-	(38)	(38)
Balance at December 31, 2018	865	113	54	53	1,085
<b>Depreciation</b>	<b>16</b>	<b>16</b>	<b>5</b>	<b>15</b>	<b>52</b>
<b>Disposals</b>	-	-	-	<b>(4)</b>	<b>(4)</b>
<b>Balance at December 31, 2019</b>	<b>881</b>	<b>129</b>	<b>59</b>	<b>64</b>	<b>1,133</b>
<b>Carrying value</b>					
Balance at January 1, 2018	274	562	40	111	987
Balance at December 31, 2018	258	546	35	69	908
<b>Balance at December 31, 2019</b>	<b>242</b>	<b>530</b>	<b>30</b>	<b>54</b>	<b>856</b>

As at December 31, 2019, the fair value measurement of the investment property is categorized as a Level 3 valuation. The fair value less cost to sell of the investment property at December 31, 2019 is estimated to be \$13.9 million (December 31, 2018 - \$9.9 million). The fair value of Bull Arm Fabrication’s investment property at December 31, 2019 is determined using the fair value of assets.

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

**7. TRADE AND OTHER PAYABLES**

	<b>December 31</b>	December 31
<i>As at (thousands of Canadian dollars)</i>	<b>2019</b>	2018
Trade payables	<b>374</b>	271
Due to related parties	<b>2,862</b>	1,288
	<b>3,236</b>	1,559

**8. EMPLOYEE FUTURE BENEFITS**

**8.1 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, 2019, of \$37,298 (2018 - \$39,147) were expensed as incurred.

**8.2 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 2018 and 2019. An actuarial valuation was performed as at December 31, 2019.

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2019</b>	2018
Accrued benefit obligation, beginning of year	<b>130</b>	141
Current service cost	<b>14</b>	17
Past service cost including curtailment	<b>1</b>	-
Interest cost	<b>6</b>	6
Liabilities extinguished on settlement	<b>(168)</b>	-
Actuarial loss (gain)	<b>17</b>	(17)
Transfers	<b>-</b>	(17)
Accrued benefit obligation, end of year	<b>-</b>	130

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2019</b>	2018
Component of benefit cost		
Current service cost	<b>14</b>	17
Past service cost including curtailment	<b>1</b>	-
Interest cost	<b>6</b>	6
Total benefit expense for the year	<b>21</b>	23

Bull Arm Fabrication employees were terminated on December 31, 2019 and re-hired by the Oil and Gas Corporation of Newfoundland and Labrador. As at December 31, 2019 the employee future benefit liability ceases to exist.

**9. SHAREHOLDER'S EQUITY**

**9.1 Share Capital**

<i>As at December 31 (thousands of Canadian dollars)</i>	<b>2019</b>	2018
Common shares without nominal or par value		
Authorized - 100		
Issued, fully paid and outstanding - 3	<b>-</b>	-

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**10. OPERATING COSTS**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2019</b>	2018
Utilities	<b>789</b>	530
Site maintenance and materials	<b>635</b>	580
Salaries and benefits	<b>293</b>	556
Insurance	<b>290</b>	352
Professional services	<b>94</b>	28
Cost recoveries	<b>25</b>	76
Other operating costs	<b>25</b>	29
	<b>2,151</b>	2,151

**11. NET FINANCE EXPENSE**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2019</b>	2018
Finance income		
Bank interest	<b>(1)</b>	(2)
	<b>(1)</b>	(2)
Finance expense		
Bank fees	<b>3</b>	2
Net finance expense	<b>2</b>	-

**12. OTHER EXPENSE**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2019</b>	2018
Loss on disposal of investment property	-	19

**13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

**13.1 Fair Value**

The estimated fair values of financial instruments as at December 31, 2019, and December 31, 2018, are based on relevant market prices and information available at the time. Fair value estimates are based on valuation techniques which are significantly affected by the assumptions used including the amount and timing of future cash flows and discount rates reflecting various degrees of risk. As such, the fair value estimates disclosed are not necessarily indicative of the amounts that Bull Arm Fabrication might receive or incur in actual market transactions.

Establishing Fair Value

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the nature of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).



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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 years ended December 31, 2019 and December 31, 2018.

As at December 31, 2019 and December 31, 2018, Bull Arm Fabrication did not have any Level 3 instruments.

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

**13.2 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 expected future cash flows are exposed to credit risk through its operating activities, primarily due to the potential for non-performance by its customers. The degree of exposure to credit risk on cash from customers, including the associated accounts receivable, is determined by the financial capacity and stability of those customers. Bull Arm Fabrication has no history of collection issues. As at December 31, 2019, there was no allowance for doubtful accounts included in trade and other receivables (2018 - \$nil).

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. Liquidity Risk Management is aimed at ensuring cash is available to meet those obligations as they become due. Short-term liquidity is provided through cash on hand, funds from operations and financial support from Bull Arm Fabrication's parent Nalcor.

The following are contractual maturities of Bull Arm's financial liabilities, including principal and interest as at December 31, 2019:

(millions of Canadian dollars)	< 1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	3,236	-	-	-	3,236
	3,236	-	-	-	3,236

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 market risk.

Interest Rates

Changes in prevailing interest rates will impact the fair value of financial assets and liabilities. Expected future cash flows from these assets and liabilities are also impacted in certain circumstances. Bull Arm Fabrication is not exposed to any significant interest rate risk.

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*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 not currently exposed to foreign exchange risk as the short term sublease is denominated in Canadian currency.

**14. 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	Wholly-owned subsidiary of Nalcor
Nalcor Energy – Oil and Gas Inc.	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.

Significant related party transactions and balances are as follows:

(a) As at December 31, 2019, Bull Arm Fabrication had a net payable to Nalcor Energy – Oil and Gas Inc. of \$2.9 million (2018 - \$1.2 million).

**14.1 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>	<b>2019</b>	<b>2018</b>
Director fees	<b>9</b>	<b>2</b>
Short term employee benefits	<b>1</b>	<b>-</b>

**15. 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.

**16. 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. 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.

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**17. SUPPLEMENTARY CASH FLOW INFORMATION**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<b>2019</b>	2018
Trade and other receivables	<b>(148)</b>	(93)
Prepayments	<b>35</b>	(138)
Trade and other payables	<b>1,677</b>	1,284
Deferred revenue	<b>(12)</b>	32
<b>Changes in non-cash working capital balances</b>	<b>1,552</b>	1,085
Related to:		
Operating activities	<b>1,552</b>	1,089
Investing activities	-	(4)
	<b>1,552</b>	1,085

**18. SUBSEQUENT EVENTS**

Effective January 1, 2020 the shares of Bull Arm Fabrication were distributed to the Oil and Gas Corporation of Newfoundland and Labrador for a nominal amount.