

BULL ARM SITE CORPORATION

2008-2009 Annual Activity Report
Transparency and Accountability

September 2009



September 29, 2009

Honourable Kathy Dunderdale, M.H.A.
Minister
Department of Natural Resources
P.O. Box 8700
St. John's, NL A1B 4J6


Dear Minister Dunderdale:

In accordance with government's commitment to accountability, I am pleased to submit the activity report, together with the financial statements, of the Bull Arm Site Corporation (BASC) for the period from April 1, 2008 to March 31, 2009.

In the 2008-2009 fiscal year, the activities of the BASC were directed by the BASC Board. Effective August 20, 2008, the provincial government announced the transfer of BASC to the province's energy corporation, Nalcor Energy and during the period leading to legal transfer which occurred on March 31, 2009, Nalcor Energy was engaged in transition activities.

This report was prepared under the direction of the Board of Directors of Nalcor Energy - Bull Arm Fabrication Inc. and the entire Board is accountable for the preparation of this report and for the results reported on the Corporation's activities during the year.

Sincerely yours,



John Ottenheimer
Chairman, Board of Directors
Nalcor Energy- Bull Arm Fabrication Inc.

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1. Overview

The Bull Arm Site is a world-class fabrication facility on the west coast of Trinity Bay. The Site was developed in 1990 to meet the rigorous demands of the offshore petroleum industry. The Site is strategically located to take advantage of the North American Free Trade Agreement, and is closer to Europe than any other part of North America.

The Bull Arm Site was used throughout 2008/2009 by NECL to undertake fabrication work for subsea components of the first White Rose field expansion. Many of the facilities in the Topsides Area of the Site were used for this work.

In July 2008, the Topsides electrical substation experienced a transformer fire due to equipment malfunction. Administrators of the Site had to act quickly to restore power to the Site. This work has been completed and full power was restored to the Topsides Area to meet the tenant's work schedule.



The Bull Arm Site contains three major areas: the Drydock Area; the Topsides Area; and the Deepwater Site. The Bull Arm Site represents a competitive and strategic advantage to companies involved in heavy industrial activities.

Board of Directors

The Board of Directors of the Bull Arm Site Corporation consists of a Chairperson, a Chief Operating Officer and four other members representing various experiences and industry/business backgrounds. While some Directors' terms ended in Oct 2008, those Board members continued their duties in light of the impending transfer of BASC to Nalcor Energy. The Board of Directors, as they existed throughout the 2008-2009 fiscal year, were as follows:

<p>Dr. Gary Gorman Interim Chairperson St. John's</p>	<p>Mr. Michael Mulrooney Director Come by Chance</p>
<p>Mr. Pierre Tobin Director and Chief Operating Officer St. John's</p>	<p>Mr. Fred Drover Director St. John's</p>
<p>Mr. Jim Keating Director St. John's</p>	<p>Mr. Bill Fanning Director St. John's</p>

The Board was supported by the following three employees, two located in the Avalon region and one located at the Bull Arm Fabrication Site:

<p>Ms. Marilyn Burse Administrative Assistant St. John's</p>	<p>Mr. Kevin Greene Site Manager Bull Arm Site</p>
<p>Ms. Pamela Benson Development Officer St. John's</p>	

Nalcor Energy - Bull Arm Fabrication is currently responsible for the management and administration of the Bull Arm Site. This change of responsibility also means that there is a new Board of Directors. For further information regarding the current Board of Directors, please refer to our website at www.bullarm.com

How to Reach Us

For additional information about Nalcor Energy – Bull Arm Fabrication, please contact:

Nalcor Energy – Bull Arm Fabrication Inc. 500 Columbus Drive P. O. Box 12 800 St. John's, NL A1C 0C9	Tel: (709) 737-1440 Fax: (709) 737-1795 Email: bullarm@nalcorenergy.com
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Budget

The Bull Arm Site Corporation's budget for the fiscal year ending March 31, 2009 was \$3,885,000. This budget was included under the Royalties and Benefits Division of the Department of Natural Resources (source: Estimates 2008-2009).

This represents a significant increase over the previous fiscal year's budget of \$1,135,000. This increase is reflective of the fact that there were a number of major projects on the horizon in the province that would have potentially utilized the Bull Arm Site for major fabrication activities. These included Hebron, the Voisey's Bay processing plant for Long Harbour, White Rose expansion projects, the Lower Churchill and the proposed second refinery, with commencements as soon as mid 2008. Thus, in addition to the regular annual operating grant of \$1,135,000, that government had budgeted for the 2008-09 fiscal year, Government had budgeted an extra \$750,000 for site maintenance. A further \$2,000,000 was allocated to provide a new management structure in order to assess the optimal use for the Site as well as manage the Site in the province's best interests during major project execution. The actual Provincial operating grant provided to the Bull Arm Site Corporation during the fiscal year was \$1,600,000; this was less than expected, given ongoing transfer activities, the availability of existing resources at BASC and Nalcor Energy and the deferral of some expenditures.

Appendix A, the Bull Arm Site Corporation's audited financial statements, highlights the financial details of the Bull Arm Site Corporation for the fiscal year ending March 31, 2009.

2. Mandate

The Bull Arm Site Corporation Board (BASC Board) is responsible for the general operations, and operational and administrative policy development for the Bull Arm Site. The BASC Board acted as a liaison between corporate administration, external proponents and the Department of Natural Resources executive.

The mandate of the BASC Board is:

To *optimize* the effective utilization rate of the Bull Arm Site for the *maximum economic benefit* of the province of Newfoundland and Labrador.

Powers and Duties of Board:

The BASC Board could, under the control and direction of the Minister, or concurrently with the Minister;

- i. purchase, lease or otherwise acquire in the name of the Crown, and sell, lease or otherwise dispose of on behalf of the Crown property, real or personal of every nature and kind, or interest in property, which is considered necessary, convenient or advisable for or incidental to the exercise of the powers, functions and duties,
- ii. enter into an agreement with the governments, departments, agencies, Boards, councils or bodies,
- iii. undertake, promote or recommend measures for the development, control and direction of the utilization of the Site,
- iv. prepare and publish statistics, reports, records, bulletins, pamphlets, circulars and other information as appropriate in relation to the operations of the Site.

3. Lines of Business

The Bull Arm Site Corporation Board (BASC Board) reported directly to the Minister of Natural Resources.

1. Operation and maintenance of the Bull Arm Site

The BASC Board directed the operation of the Bull Arm Site regarding maintenance, safety and readiness for clients wishing to utilize the Site.

2. Promotion of the Bull Arm Site

The BASC Board guided the overall marketing and promotion of the Site including requests for expressions of interest, advertising, meetings with potential proponents and attendance at trade shows and conferences by executive and staff.

3. Assessment of Proposals and Monitoring of Leases

The Board oversees the analysis of proposals submitted for site utilization opportunities. Once the proposal is determined to be a viable project within the guiding principles of the Board, the Board's staff negotiates an agreement with the proponent. The Board's staff also monitors compliance with the terms and conditions of the lease agreement.



Topsides Area

4. Vision

The vision of Bull Arm Site held by the BASC Board was of a fully utilized, internationally competitive facility that operates to the highest standards of safety and service quality, for the maximum benefit (of our clients and) of the people of Newfoundland and Labrador.

In order to support the attainment of this vision the BASC Board maintained the following policies.

Potential Uses	The priority of the BASC Board will be to pursue options for industrial fabrication, in keeping with the site's original design intent. Other uses for the Site will be considered only where they would not conflict with potential usage for industrial fabrication, and where the BASC Board feels such usage may be appropriate.
Tangible Work	The BASC Board will only negotiate leases for access to the Site with parties having confirmed work commitments. The BASC Board will consult with potential tenants engaging in bidding, budgeting or other activities, but leases will not be negotiated without confirmed work commitments.
Maximization of Usage	The Board seeks to maximize utilization of the Bull Arm Site and thereby the direct and ancillary benefits to the Province by targeting large scale energy projects.

5. Mission Statement

The mission statement identifies the priority focus area of the Minister over the next planning cycle. It represents the key longer-term results that the Minister and the Board will report on concerning work towards achieving the strategic directions of government. The statement also identifies the measures and indicators that will assist the Board and the public in monitoring and evaluating success.

With the number of major projects on the horizon, including Hebron, the Voisey's Bay processing plant for Long Harbour, White Rose expansion projects and the Lower Churchill, there is significant opportunity for the Bull Arm Site to continue to contribute to the province's fabrication capacity.

Mission:

By 2011 the Board will have enhanced processes to optimize the utilization of the Site in the oil and gas energy sector.

Measure: Enhanced processes to optimize utilization of the Site.

Indicators:

Optimized utilization of the Site ensured through:

Increased assessment and planning activities for site utilization

Adjusted marketing activities to increase the effectiveness of promotional campaigns

Increased repair and maintenance to site infrastructure

The BASC Board believes strongly that the work accomplished in the 2008/2009 fiscal year directly contributed towards completion of this mission statement. For details please refer to the Outcomes of Objectives, Section 7.



Dry Dock Area

6. Highlights and Accomplishments

In addition to the work completed to fulfill its objectives for the fiscal year as outlined in the Outcomes of Objectives section, the BASC Board also achieved noteworthy accomplishments in a number of areas.

North Eastern Constructors Limited

In August 2008, NECL commenced a year-long lease of the Topsides Area at Bull Arm. The company constructed subsea components for Husky Energy's North Amethyst Field. At the peak of fabrication, NECL employed 178 people at the Bull Arm Site. The majority of the completed subsea components were dispatched from Bull Arm in May 2009.

Hebron Project – Option to Lease

Also in August 2008, the BASC and Chevron Canada, who at the time represented the Hebron Project Team, entered into an Option to Lease Agreement that would see the Bull Arm Site utilized from some time in 2011 until at least 2016. Significant negotiation and effort was expended to draft the Option to Lease document.

Other Utilization Activity

During fiscal 2008-2009, the BASC also had correspondence with various prospective tenants in order to provide them with assurance that the Site would be available to them if they were successful in obtaining fabrication contracts. One such prospective tenant was Pennecon Energy, who entered into a formal lease for a portion of the site after fiscal 2008-2009.

Dynamic Air Shelters Incorporated

Dynamic Air Shelters Incorporated is a western Canadian company that specializes in the fabrication of inflatable industrial structures. In 2006 Dynamic set up a manufacturing operation based in Grand Bank, Newfoundland and Labrador. The BASC Board and Dynamic entered into a lease agreement in February 2008 to provide the use of a building on a temporary basis to fulfill a short term need for a large weather proof facility to complete inspections and testing. While not a significant contributing factor to the strategic directions as outlined by the Minister of Natural Resources, this lease extension was considered to be noteworthy by the BASC Board as a contributing factor to the lease revenues and operations of the corporation.

Transera Ltd.

Transera International Logistics entered into a contract with BASC to transport and store wind turbines at the Bull Arm site. While not strictly in the oil and gas category of industry, this contract had a positive effect to the BASC cashflow during the year and capitalized on site capacity.

7. Outcomes of Objectives

As per the Bull Arm Site Corporation's Board Activity Plan, April 1 2008-March 31, 2011, the BAF Board is presenting a report on the progress of the objectives outlined in that document.

Issue 1: Optimized Site Utilization

The Bull Arm Site is one of the province's greatest assets which contributes to our significant industrial fabrication capacity. With major resource projects on the horizon, the Board was focused on participating in initiatives to ensure optimized utilization of the Site by these major proponents over the next five years. This work has supported the oil, gas and minerals maximization component of government's strategic direction.

Objective: The Board will have participated in an ongoing initiative with the Energy Corporation to assess the opportunities for potential utilization of the Site by major industrial project proponents.

Measure: Ongoing participation in assessment of opportunities for potential site utilization.

Indicators	Progress
Analyzed specific requirements, infrastructure, timing, and services of upcoming major resource projects	BASC analyzed specific requirements, infrastructure, timing and services of upcoming resource projects through two main mechanisms: 1) a consultancy arrangement with Acquaint Consulting; 2) ongoing planning activities with Nalcor Energy.
Recommended strategies to ensure that site utilization is optimized including the identification of capacity constraints	The recommended strategies from the Acquaint study were in relation to management of site infrastructure and the philosophy adopted by the corporation with respect to Site utilization. These strategies included consideration of capacity constraints and will be used for future planning activities at Nalcor Energy – Bull Arm Fabrication.

Issue 2: Marketing and Promotion

In order to attract tenants and activity to the Site, the BASC have continued to conduct targeted marketing and promotion activities including advertising in trade magazines and other relevant publications. Staff and executive have attended trade shows and conferences, as well as met personally with potential clients to discuss opportunities for utilization. This has increased the awareness of the Site as a viable alternative to competing facilities.

Objective: The Board will have assessed its marketing and promotions activities, and will have adjusted the levels of these activities, as appropriate.

Measure: Assessed marketing and promotion activities and adjusted marketing and promotion activities.

Indicators:

Indicators	Progress
Developed a revised advertising plan	As indicated in the previous objective, fiscal 2008-2009 was an assessment and transition year focused on the determination of the most effective management strategy for the Bull Arm Site. Potential activity levels in the industry were high, evidenced by the following projects - Hebron, the Voisey's Bay processing plant for Long Harbour, White Rose expansion projects, the Lower Churchill Project and the proposed second refinery. The BASC Board was focused on optimizing available benefits from these projects and the management of timing and capacity related to these opportunities. Thus, there was a targeted promotion of the Site to individual companies that resulted in contracts for site utilization and significant levels of activity at the Site. Given this level of activity, there was no need for a revised advertising plan. However, various accomplishments in this area are noteworthy: <ul style="list-style-type: none">• Participation in trade shows was completed by the attendance of BASC personnel at the NOIA Conference in St. John's, NL and Offshore
Updated multi-media presentation (DVD, brochures)	
Participated in strategically selected trade shows	
Prepared an annual report of its activities for tabling in the House of Assembly	
Updated the Corporation's website	

	<p>Technology Conference in Houston, TX.</p> <ul style="list-style-type: none"> • This annual report was prepared • The corporation's website was updated
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Issue 3: Maintenance and Repair of Site Infrastructure

Large industrial facilities require ongoing maintenance and repair to ensure the infrastructure meets acceptable safety standards and is always in a state of readiness for occupancy. Priorities identified throughout the year were addressed by the Board and are critical for the intended long term utilization of the site.

Objective: The Board will ensure that the Site infrastructure is maintained and operated at an acceptable safety standard level.

Measure: Maintained acceptable safety standards

Indicators	Progress
Completed a safety report on site infrastructure	BASC was transferred to Nalcor Energy on 31 March 2009. Due to the impending transfer, an independent safety report was not completed as it was anticipated that Nalcor Energy would be completing its own safety report on the Bull Arm Site which would be aligned with the future operation of the Site.
Identified and completed priority repairs and maintenance initiatives	BASC identified and completed the following repairs at the Bull Arm Site: <ul style="list-style-type: none"> • Overhead door replacement at Module Hall • Roof repair on former Concrete Test Lab Building • Demolition of temporary buildings • Roof repair at Rebar Building • Provision of fire-fighting equipment • Inspection & Repair of Sewage System Blowers
Developed a disposal plan in consultation with GPA for the removal of unwanted mobile equipment, cranes and temporary infrastructure	While a formal plan was not developed due to the transition of BASC to Nalcor Energy, there was preliminary action that occurred during the 2008-2009 fiscal year in anticipation of the completion of this

	<p>objective. Nalcor Energy has advanced the disposal plan through the identification and grouping of obsolete equipment/ materials with a planned auction of unnecessary equipment/materials.</p>
<p>Monitored processes for inspection activities of site infrastructure including facilities and equipment to ensure adequate inspections are occurring and identified deficiencies are addressed</p>	<p>A key role of the BASC Board is to ensure integrity of the Site. The Board regularly monitored inspection activities and processes. The Board received regular reports from the Site Manager on the conditions of the various facilities that were used to inform decisions leading to additional maintenance activities as described above. Inspection activity in the future will be monitored by Nalcor Energy – Bull Arm Fabrication.</p>

8. Opportunities and Challenges Ahead

With the number of major projects on the horizon, including Hebron, the Voisey's Bay processing plant for Long Harbour, White Rose expansion projects and the Lower Churchill, there is significant opportunity for the Bull Arm Site to continue to contribute to the province's fabrication capacity. Ensuring that the Site is positioned to accommodate the future schedules and capacity needs may be a challenge as major projects can experience delays in starting up and experience overlaps during development, resulting in possible resource and capacity challenges.

An option to lease the site has been negotiated with the operator of the Hebron Project that will utilize the Site from 2011 through to 2016. Beyond the development of the Hebron Project, a major challenge facing the Bull Arm Site, along with the entire service and supply sector, is the cyclical nature of the oil and gas industry. This was also an issue identified in the Provincial Energy Plan. BAF has already started planning for the future. By the end of 2009, BAF will have identified a framework for a long term strategic plan that is aligned with this.

In the near term, BAF is focused on operational excellence and safety. There are resources allocated to address site maintenance and upgrades as well as the establishment of a comprehensive business plan and model.

9. Appendix A – Financial Statements

BULL ARM SITE CORPORATION
FINANCIAL STATEMENTS
March 31, 2009

Auditors' Report

To the Directors of
Bull Arm Site Corporation

We have audited the balance sheet of Bull Arm Site Corporation (the "Corporation") as at March 31, 2009 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures were audited by another firm of chartered accountants who issued their opinion without reservation dated June 3, 2008.

Deloitte & Touche LLP

Chartered Accountants
June 11, 2009

BOARD OF DIRECTORS

JOHN OTTENHEIMER¹
Lawyer and Corporate Director

EDMUND J. MARTIN¹
President and Chief Executive Officer
Nalcor Energy

BILL FANNING^{1,2}
President and Chief Operating Officer
Spectrol Energy Services

MICHAEL MULROONEY^{1,2}
Production Day Coordinator
Petro Canada

CATHY BENNETT¹
Owner / Operator
Bennett Restaurants Ltd.

GERALD SHORTALL¹
Chartered Accountant and Corporate Director

GARY GORMAN²
Dean, Faculty of Business Administration
Memorial University

JIM KEATING²
Vice-president Business Development
Newfoundland and Labrador Hydro

FRED DROVER²
Comptroller, Keyin College

PIERRE TOBIN⁴
Assistant Deputy Minister
Natural Resources

OFFICERS

JOHN OTTENHEIMER³
Chairman

EDMUND J. MARTIN³
President and Chief Executive Officer

DERRICK F. STURGE³
Vice-President, Finance and Chief Financial Officer

CHRIS KIELEY³
Vice-President

GREG JONES³
General Manager

WAYNE D. CHAMBERLAIN³
General Counsel and Corporate Secretary

PETER A. HICKMAN³
Assistant Corporate Secretary

MARK G.S. BRADBURY³
Corporate Treasurer

GLENN H. MITCHELL³
Corporate Controller

HEAD AND CORPORATE OFFICE

P.O. Box 12800
St. John's, Newfoundland and Labrador

¹ Appointed March 31, 2009

² Term ended October 2008 but continued as member of the Board of Directors until March 31, 2009

³ Appointed April 27, 2009

⁴ Term ended upon appointment of new Board of Directors, March 31, 2009

BULL ARM SITE CORPORATION
BALANCE SHEET

As at March 31

2009

2008

ASSETS

Current assets

Cash and cash equivalents	662,246	202,722
Investments (Note 2)	126,747	123,834
Receivables (Note 3)	553,682	62,421
Prepaid expenses (Note 4)	37,879	87,068
	<u>1,380,554</u>	<u>476,045</u>

Investment property (Note 5)

Property, plant and equipment (Note 6)

	<u>1</u>	<u>1</u>
	<u>514,982</u>	<u>630,397</u>
	<u>1,895,537</u>	<u>1,106,443</u>

LIABILITIES AND SHAREHOLDER'S EQUITY

Current liabilities

Accounts payable and accrued liabilities	66,081	97,024
Due to related parties (Note 9)	768,738	-
Distribution payable to the Province of Newfoundland and Labrador (Note 7)	836,308	1,009,415
	<u>1,671,127</u>	<u>1,106,439</u>

Shareholder's equity

Share capital

Authorized

100 common shares of no par value

Issued

3 common shares

Equity in investment property (Note 5)

Retained earnings

	3	3
	1	1
	<u>224,406</u>	<u>-</u>
	<u>224,410</u>	<u>4</u>

Contingent liability (Note 8)

	<u>1,895,537</u>	<u>1,106,443</u>
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See accompanying notes

On behalf of the Board:



 DIRECTOR



 DIRECTOR

BULL ARM SITE CORPORATION
STATEMENT OF INCOME AND COMPREHENSIVE INCOME

<i>For the year ended March 31</i>	2009	2008
Revenue		
Province of Newfoundland and Labrador		
Operating grant	1,600,000	1,135,000
Lease and rental revenue	544,704	42,162
Interest	7,089	12,426
	<u>2,151,793</u>	<u>1,189,588</u>
Expenses		
Operating and maintenance	1,664,782	1,066,071
Amortization	115,415	145,036
	<u>1,780,197</u>	<u>1,211,107</u>
Net income (loss) (Note 7)	<u>371,596</u>	<u>(21,519)</u>

See accompanying notes

BULL ARM SITE CORPORATION
STATEMENT OF RETAINED EARNINGS

<i>For the year ended March 31</i>	2009	2008
Retained earnings, beginning of year	-	-
Net income (loss) (Note 7)	371,596	(21,519)
Deductions (additions) to distribution payable to Province (Note 7)	(147,190)	21,519
Retained earnings, end of year	<u>224,406</u>	<u>-</u>

BULL ARM SITE CORPORATION
STATEMENT OF CASH FLOWS

For the year ended March 31

2009

2008

Cash provided by (used in)		
Operating activities		
Net income (loss)	371,596	(21,519)
Adjusted for items not involving a cash flow		
Amortization	115,415	145,036
Bad debt	<u>-</u>	<u>2,875</u>
	487,011	126,392
Changes in non-cash operating working capital balance		
Receivables	(491,261)	(55,981)
Due to related parties	768,738	-
Accounts payable and accrued liabilities	(30,943)	(9,711)
Performance bonds payable	-	(9,135)
Prepaid expenses	<u>49,189</u>	<u>74,023</u>
	782,734	125,588
Financing activity		
Amounts paid or payable to Province of Newfoundland and Labrador (Note 7)	<u>(320,297)</u>	<u>(32,362)</u>
Net increase in cash and cash equivalents	462,437	93,226
Cash position, beginning of year	<u>326,556</u>	<u>233,330</u>
Cash position, end of year	<u>788,993</u>	<u>326,556</u>
Cash is represented by		
Cash and cash equivalents	662,246	202,722
Investments	<u>126,747</u>	<u>123,834</u>
	<u>788,993</u>	<u>326,556</u>

See accompanying notes

BULL ARM SITE CORPORATION

NOTES TO FINANCIAL STATEMENTS

The Bull Arm Site Corporation (Bull Arm or the Corporation) was incorporated by the Province of Newfoundland and Labrador (the Province) on September 15, 1995, under the Corporations Act. All shares of the Corporation were held by ministers of the crown on behalf of the Province. Its affairs were governed by a Board of Directors appointed by the Lieutenant-Governor in Council. Effective March 31, 2009, the Province authorized Nalcor Energy (Nalcor) to acquire the outstanding shares of the Corporation for \$1 and to maintain it as a subsidiary of Nalcor. Bull Arm was renamed Nalcor Energy - Bull Arm Fabrication Incorporated effective May 12, 2009.

An agreement between the Province and the parties involved in the Hibernia project provided for the transfer of assets, known as investment property, at the Bull Arm Site (Site) to the Province. Investment property is defined in the agreement to include buildings, fixed equipment, living and recreational facilities, drydock, wharves, vehicles and other assets. In addition, the Corporation may accept investment property from other lessors of the Site upon termination of the lease agreements. The purpose of the Corporation is to receive and administer these assets at the Site. Investment property that is surplus to the future needs of the Corporation is either transferred for nil proceeds to the Province for its use or, if not required by the Province, disposed of to third parties.

1. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by the Corporation's management in accordance with Canadian generally accepted accounting principles. The preparation of these financial statements requires the use of estimates and assumptions that affect the amounts reported and disclosed in these statements and related notes. Key areas where management has made complex or subjective judgements include the fair value and recoverability of assets, environmental and asset retirement obligations, amortization, and property, plant and equipment. Actual results may differ from these estimates.

Revenue

Revenue is recognized on the accrual basis.

Investment Property

Management of the Corporation has concluded that it is not practical to determine the value of the investment property with sufficient reliability and thus investment property is recorded at a nominal value of \$1. Any costs associated with obtaining the investment property are expensed as incurred.

Property, Plant and Equipment

Property, plant and equipment is capitalized at cost at the time of acquisition. Contributions toward the acquisition of capital assets are deducted from the related capital asset cost with any amortization calculated on the net amount. Amortization is calculated using the methods described below based on the expected future life of the asset.

Computer equipment	30% declining balance
Vehicle	30% declining balance
Office equipment	20% declining balance
Topsides module hall door	20% declining balance
Security building	4% declining balance

Impairment of Long-Lived Assets

Bull Arm reviews the carrying value of its property, plant and equipment whenever events or changes in circumstances indicate that the expected undiscounted net cash flows could be lower than the carrying value of the property and assets. An impairment loss corresponding to the amount by which the carrying value exceeds fair value is recognized, if applicable.

BULL ARM SITE CORPORATION
NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

New Accounting Policies

Effective January 1, 2008, Bull Arm adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA).

(a) Disclosure and Presentation of Financial Instruments

Section 3862, Financial Instruments, Disclosures and Section 3863, Financial Instruments, Presentation sets out new accounting recommendations for disclosure and presentation of financial instruments. The new recommendations require disclosure of both quantitative and qualitative information that enables users of financial statements to evaluate the nature and extent of exposure to risks from financial instruments. These new standards did not have any impact on Bull Arm financial results. The additional disclosure is included in Note 10 to these financial statements.

(b) Capital Disclosures

Section 1535, Capital Disclosures requires Bull Arm to include additional information in the notes to the financial statements about its capital and the manner in which it is managed. This additional disclosure includes quantitative and qualitative information regarding objectives, policies and processes for managing capital. The additional required disclosure is provided in Note 11.

Distribution Payable to the Province of Newfoundland and Labrador

The Minister of Finance is authorized to invest any surplus from operations. Each year, the surplus or deficit from operations was credited or charged to the Distribution payable to the Province of Newfoundland and Labrador account however there are no set terms of payment (see Note 7). This account contains the accumulated results of operations of the Corporation since its inception, less any distributions paid to the Province. Effective January 1, 2009, rental revenues are to be retained by Bull Arm and are reflected in retained earnings.

2. INVESTMENTS

Investments of \$126,747 (2008 – \$123,834) in redeemable guaranteed investment certificates are valued at cost which approximates market value. Maturity dates range from April 17, 2009, to March 8, 2010, with interest rate of 0.75% (2008 2.00% - 2.55%).

3. RECEIVABLES

	2009	2008
Harmonized sales tax	78,208	53,802
Trade	475,378	7,929
Interest	96	690
	<u>553,682</u>	<u>62,421</u>

BULL ARM SITE CORPORATION
NOTES TO FINANCIAL STATEMENTS

4. PREPAID EXPENSES

	2009	2008
Insurance	1,663	42,700
Grants	35,000	35,000
Maintenance	-	7,764
Salaries and employee benefits	1,216	1,196
Membership fees	-	408
	<u>37,879</u>	<u>87,068</u>

5. INVESTMENT PROPERTY

In March, 1998, the Corporation accepted all remaining investment property from the Hibernia Management Development Corporation. In November, 2001, the Corporation accepted investment property relating to the Terra Nova Project which remained on site following the expiration of a site lease with PCL Industrial Contractors Inc.

6. PROPERTY, PLANT AND EQUIPMENT

	Cost	Capital Contributions	Accumulated Amortization	Net Book Value
2009				
Computer equipment	16,464	-	15,053	1,411
Vehicles	45,672	-	27,928	17,744
Office equipment	6,246	-	4,873	1,373
Topsides module hall door	1,623,179	500,000	709,131	414,048
Security building	<u>89,027</u>	<u>-</u>	<u>8,621</u>	<u>80,406</u>
	<u>1,780,588</u>	<u>500,000</u>	<u>765,606</u>	<u>514,982</u>
2008				
Computer equipment	16,464	-	14,449	2,015
Vehicles	45,672	-	20,323	25,349
Office equipment	6,246	-	4,530	1,716
Topsides module hall door	1,623,180	500,000	605,619	517,561
Security building	<u>89,027</u>	<u>-</u>	<u>5,271</u>	<u>83,756</u>
	<u>1,780,589</u>	<u>500,000</u>	<u>650,192</u>	<u>630,397</u>

7. DISTRIBUTION PAYABLE TO THE PROVINCE OF NEWFOUNDLAND AND LABRADOR

The change in the distribution payable to the Province of Newfoundland and Labrador for the year is as follows:

	2009	2008
Balance, beginning of year	1,009,415	1,063,296
Amounts paid or payable to Province	(320,297)	(32,362)
Net income	371,596	(21,519)
Allocation to retained earnings	<u>(224,406)</u>	<u>-</u>
Balance, end of year	<u>836,308</u>	<u>1,009,415</u>

BULL ARM SITE CORPORATION
NOTES TO FINANCIAL STATEMENTS

8. CONTINGENT LIABILITY

- (a) The Corporation has agreed to store used tires at the Bull Arm Site on behalf of the Multi-Materials Stewardship Board until the recycling phase of the used tire recycling program begins. The Corporation does not receive any lease or rental income for providing this storage. Based upon legal advice obtained by the Corporation, it is the legal guardian of the tires and any possible liabilities arising in relation to the storage of the tires is the responsibility of the Corporation. The Corporation has directed legal counsel to seek an indemnification from any liabilities associated with the storage of used tires at the Bull Arm Site from the Multi-Materials Stewardship Board.
- (b) Bull Arm has undertaken a Phase 1 Environmental Site Assessment of the Site. Management is reviewing the conclusions and recommendations contained in the consultant's report but has not determined whether any additional investigation, remediation or other action will be undertaken and therefore the cost of any such actions cannot be reasonably determined at this time.

9. RELATED PARTY TRANSACTIONS

	2009	2008
Due to the Province of Newfoundland and Labrador	316,086	-
Due to Nalcor Energy	<u>452,652</u>	<u>-</u>
	<u>768,738</u>	<u>-</u>

The Province, Nalcor, Newfoundland and Labrador Hydro (Hydro) and Bull Arm are related parties.

- (a) The Province has provided office space, office equipment and furnishings, and legal services at no cost to the Corporation. These contributions are not reflected in these financial statements. Salaries and benefits for certain employees of the Corporation are paid directly by the Province and reimbursed by the Corporation.
- (b) Nalcor and Hydro provide engineering, technical, management and administrative services. These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial Instruments

Bull Arm has classified its financial instruments as follows:

Cash and cash equivalents	Held-for-trading
Short-term investments	Held-to-maturity
Receivables	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Due to related parties	Other liabilities

Each of these financial instruments is measured at amortized cost, which approximates fair value.

BULL ARM SITE CORPORATION
NOTES TO FINANCIAL STATEMENTS

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd.)

Risk Management

Exposure to credit risk and liquidity risk arises in the normal course of Bull Arm's business.

(a) Credit Risk

Bull Arm is exposed to credit risk in the event of non performance by counterparties to its financial instruments. Credit risk on sales is minimized by the credit terms extended to customers. Bull Arm has no history of collection issues. Bull Arm manages its investment credit risk exposure by restricting its investments to high quality securities such as Guaranteed Investment Certificates from Schedule 1 Canadian Chartered Banks.

(b) Liquidity Risk

Bull Arm 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. Long-term liquidity risk is minimized through the provision of annual operating grants from the Province.

Bull Arm has no significant exposure to market risk.

11. CAPITAL MANAGEMENT

Bull Arm'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. Commencing in January 2009, rental revenues are retained by Bull Arm and reflected in retained earnings. The balance of surplus from operations are payable to the Province, but there are no set repayment terms.

12. INCOME TAXES

The Corporation is a crown entity of the Province and as such is not subject to Federal or Provincial income taxes.

13. COMPARATIVE FIGURES

Certain figures from the 2008 financial statements have been reclassified to conform with the basis of presentation used in 2009.