

# **Tangguh Sago Operating Limited**

Annual report and financial statements

31 December 2019  
Registered number 06433805



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## **Strategic Report**

The directors present their strategic report for the year ended 31 December 2019.

### **Principal activity**

The principal activity of Tangguh Sago Operating Limited (the "Company") is the transportation of liquefied natural gas ("LNG").

### **Business review**

On 21 November 2007, the Company was incorporated under the laws of the United Kingdom. In December 2007, the Company entered into a lease agreement as a lessee to lease an LNG carrier, the *Tangguh Sago*, for a period of 20 years commencing from the delivery date of the *Tangguh Sago* in March 2009. In February 2008, the Company acquired a 20-year time-charter agreement from a related company for \$59.2 million in exchange for a non-interest bearing loan. In March 2009, the *Tangguh Sago* was delivered and commenced its time-charter in May 2009 with The Tangguh Production Sharing Contractors.

### **Key performance indicators**

Management measures the Company's performance by reviewing the Company's operating profit from continuing operations. The results of the Company's operating profit from continuing operations are detailed below.

### **Results**

The profit for the year was \$3.9 million (2018 – \$3.5 million). The increase of \$0.4 million was mainly a result of the adoption of IFRS 16, Leases, accounting standard on 1 January 2019. See Note 1.14 for details.

Please refer to Note 1 for description of voyage revenues, operating expenses and finance expense / income.

### **Future developments**

The Company plans to operate its LNG carrier under its time-charter contract and does not have any other future developments.

## **Strategic Report (*continued*)**

### **Principal risks and uncertainties**

The principal risks and uncertainties facing the Company are broadly grouped as regulatory risks and general risks.

#### *Regulatory risks*

The business and the operation of the vessel are significantly affected by international conventions and national, state and local laws and regulations in the jurisdictions in which the vessel operates, as well as in the country or countries of its registration. As these conventions, laws and regulations change frequently, the Company cannot predict the ultimate cost of compliance or their impact on the resale price or useful life of the vessel. Additional conventions, laws and regulations may be adopted that could limit the ability to do business or increase the cost of doing business and that may materially adversely affect operations.

#### *General risks*

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (or "COVID-19") as a pandemic. Given the dynamic nature of these circumstances, the full extent to which the COVID-19 pandemic may have direct or indirect impact on the Company's business and the related financial reporting implications cannot be reasonably estimated at this time. As of the date of this report, the Company has not yet experienced any material negative impacts to its business, results of operations, or financial position as a result of COVID-19.

### **Financial risk management objectives and policies**

The Company's financial liabilities comprise trade payables, advances to and from related parties and fixed-rate bonds listed on The International Stock Exchange. The main purpose of these financial liabilities is to provide sources of finance for the Company's operations.

#### *Liquidity risk*

The Company monitors its risk to a shortage of funds by forecasting future cash flows from operations. The Company's operating structure has been set up such that cash flows should be sufficient to make the required lease and bond payments and to fund its ongoing operations.

#### *Credit risk*

The Company trades only with recognised, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed on the balance sheet.

With respect to concentrations of credit risk, the Company derives all voyage revenues from one customer, and the loss of the customer, time-charter or vessel would result in a significant loss of revenues and cash flows.

## **Strategic Report (continued)**

### *Interest rate risk*

The Company's exposure to changes in market interest rates relates primarily to the Company's variable-rate operating lease and notes receivable from a related party.

### **Capital management**

The Company is a wholly-owned subsidiary of Teekay BLT Corporation. The Company's capital management is determined by its parent company's shareholders' agreement. No changes were made in the objectives, policies or processes during the year ended 31 December 2019.

By order of the board



**Christopher McDade**  
*Director*

2<sup>nd</sup> floor, 86 Jermyn Street  
London SW1Y 6JD  
30 September 2020

## **Directors' Report**

The directors present their directors' report and financial statements for the year ended 31 December 2019.

## **Dividends**

No dividend payments were approved by the directors in 2019 (2018 – \$nil).

## **Directors and directors' interests**

The directors who held office during the year and to the date of this report were as follows:

Iain Relf (resigned on 15 May 2020)  
Anthony Budiawan  
Anne Liversedge  
Siana Surya  
Christopher McDade (appointed on 28 March 2019)  
James Thomson (appointed on 15 May 2020)

None of the directors who held office at the end of the financial year had any disclosable interest in the shares and debentures of the Company.

No directors benefited from qualifying third-party indemnity provisions during the financial year or at the date of this report.

## **Employees**

As of 31 December 2019, the average number of seagoing staff that served on the vessel the Company operates was 27 and the Company incurred \$2.1 million of employee-related costs during the year (2018 – 28 and \$2.3 million, respectively). These costs are presented as part of vessel operating expenses in the Company's income statement.

## **Political and charitable contributions**

The Company made no political or charitable donations or incurred any disclosable political expenditure during the current or prior year.

## **Disclosure of information to auditor**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

**Directors' Report (*continued*)**

**Auditor**

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

**Responsibility statement of the directors in respect of the annual financial report**

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company; and
- the strategic report includes a fair review of the development and performance of the business and the position of the issuer, together with a description of the principal risks and uncertainties that they face.

By order of the board



**Christopher McDade**  
Director

2<sup>nd</sup> floor, 86 Jermyn Street  
London SW1Y 6JD  
30 September 2020

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TANGGUH SAGO OPERATING LIMITED**

### **1 Our opinion is unmodified**

We have audited the financial statements of Tangguh Sago Operating Limited ("the Company") for the year ended 31 December 2019 which comprise the income statement, balance sheet, statement of changes in equity, cash flow statement, and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### ***Basis for opinion***

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### **2 Key audit matters: our assessment of risks of material misstatement**

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows (unchanged from 2018):

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TANGGUH SAGO OPERATING LIMITED (continued)**

<p><b>Tax expense</b></p> <p>\$827,096 (2018: \$710,516)</p> <p>Refer to page 22 (accounting policy) and pages 32 and 33 (financial disclosure).</p>	<p>Subjective estimate - Provision for tax contingencies require the directors to make judgements and estimates in relation to tax risks, in particular in relation to the ongoing dispute in relation to a tax assessment in the UK. This is judgemental due to the complexities and uncertainties of local tax legislation.</p> <p>Tax matters can take many years to resolve. The risk to the financial statements is that the eventual resolution of a matter with tax authorities is at an amount materially different to the accrual.</p>	<p><b>Our procedures included:</b></p> <p><b>Our tax expertise:</b> Assessing, together with our own local tax specialists, the company's tax position including specifically the ongoing tax assessment, inspecting relevant correspondence with the tax authorities and analysing and challenging the judgement about the likely conclusions used to determine tax provisions based on our knowledge and experience of the application of the local legislation by the relevant authorities and courts; and</p> <p><b>Assessing transparency:</b> Assessing the adequacy of the company's disclosures in respect of tax and uncertain tax positions.</p> <p><b>Our results:</b></p> <p>We found the level of tax provisioning in the company to be acceptable (2018: acceptable).</p>
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**3 Our application of materiality and an overview of the scope of our audit**

Materiality for the financial statements as a whole was set at \$530,000 (2018: \$610,000), determined with reference to a benchmark of total assets, of which it represents 0.32% (2018: 1.00%).

We agreed to report to the Board any corrected or uncorrected identified misstatements exceeding \$26,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TANGGUH SAGO OPERATING LIMITED (*continued*)**

### **4 We have nothing to report on going concern**

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit and the impact of COVID-19, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

### **5 We have nothing to report on the other information in the Annual Report**

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TANGGUH SAGO OPERATING LIMITED (*continued*)**

### ***Strategic report and directors' report***

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

### **6 We have nothing to report on the other matters on which we are required to report by exception**

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

### **7 Respective responsibilities**

#### ***Directors' responsibilities***

As explained more fully in their statement set out on page 6, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

#### ***Auditor's responsibilities***

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TANGGUH SAGO OPERATING LIMITED (*continued*)**

**8 The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

**Lyn Niccolls (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
319 St Vincent Street  
Glasgow  
G2 5AS

30 September 2020

**INCOME STATEMENT**  
**For the year ended 31 December 2019**  
**(in United States Dollars)**

	2019 \$	2018 \$
<b>Voyage revenues</b> (notes 1.14 and 2)	17,417,128	28,123,997
<b>Operating expenses</b>		
Voyage expenses	(25,820)	510,446
Vessel operating expenses (notes 4 and 10a)	(6,055,602)	(7,087,640)
Depreciation and amortisation (notes 1.14, 6 and 7)	(828,624)	(3,924,103)
Rental expenses (notes 1.14 and 2b)	—	(12,248,833)
General and administrative expenses (notes 3 and 10a)	(97,559)	(233,503)
	<u>(7,007,605)</u>	<u>(22,983,633)</u>
Operating profit from continuing operations	<u>10,409,523</u>	<u>5,140,364</u>
<b>Net finance expense</b>		
Interest expense (notes 1.14, 2b and 10c)	(6,294,799)	(1,530,432)
Interest income (note 10d)	496,124	381,098
Other income (note 11)	233,312	233,312
Foreign currency exchange (loss)/gain	(68,567)	10,860
	<u>(5,633,930)</u>	<u>(905,162)</u>
<b>Profit before taxation</b>	4,775,593	4,235,202
Taxation expense (note 12)	(827,096)	(710,516)
<b>Profit attributable to equity holders</b>	<u>3,948,497</u>	<u>3,524,686</u>

The accompanying notes on pages 16 to 39 form part of the financial statements.

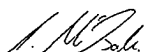
The Company has no comprehensive income other than the profit above, and therefore, no separate Statement of Comprehensive Income has been presented.

All results for the financial periods noted above were from continuing operations.

**BALANCE SHEET**  
**As at 31 December 2019**  
**(in United States Dollars)**

	2019 \$	2018 \$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	8,358,823	3,231,036
Accounts receivable	109,643	1,770,431
Current portion of finance lease receivable (notes 1.14 and 2a)	9,923,029	—
Due from related parties - current (note 10e)	—	10,904,486
Prepayments and advances	45,032	126,824
Deferred tax assets (note 12)	414,382	7,030
	<u>18,850,909</u>	<u>16,039,807</u>
<b>Non-current assets</b>		
Restricted cash	1,552,710	—
Due from related parties - non-current (note 10e)	11,534,661	—
Notes receivable from related party (notes 10d and 10e)	8,461,982	8,087,288
Vessel equipment and modifications (note 6)	2,881,545	3,710,169
Finance lease receivable (notes 1.14 and 2a)	119,891,683	—
Accrued revenue and other assets (notes 2c and 2d)	3,101,165	2,590,923
Intangible asset (notes 1.14 and 7)	—	30,781,596
<b>Total assets</b>	<u>166,274,655</u>	<u>61,209,783</u>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	153,748	217,758
Accrued liabilities (note 9)	4,929,167	3,925,988
Current portion of unearned revenue (note 2c)	14,702	—
Due to related parties (note 10e)	2,495,076	2,641,844
Current portion of bond payable to related party (note 10e)	1,666,666	1,666,667
Current portion of finance lease liability (notes 1.14 and 2b)	7,682,891	—
	<u>16,942,250</u>	<u>8,452,257</u>
<b>Non-current liabilities</b>		
Unearned revenue (note 2c)	124,967	—
Bond payable to related party (note 10e)	15,000,000	16,666,666
Long-term finance lease liability (notes 1.14 and 2b)	80,361,597	—
Guarantee liability (note 11)	3,093,984	3,327,297
Deferred tax liabilities (note 12)	3,378,786	—
<b>Total liabilities</b>	<u>118,901,584</u>	<u>28,446,220</u>
<b>Net assets</b>	<u>47,373,071</u>	<u>32,763,563</u>
<b>Capital and reserves</b>		
Share capital (note 8)	23,158,002	23,158,002
Retained earnings	24,215,069	9,605,561
<b>Total equity</b>	<u>47,373,071</u>	<u>32,763,563</u>

The accompanying notes on pages 16 to 39 form part of the financial statements.  
These financial statements were approved by the board of directors and were signed on its behalf by:



**Christopher McDade**  
Director  
Tangguh Sago Operating Limited  
Registered number: 06433805

Date 30 September 2020

**STATEMENT OF CHANGES IN EQUITY**  
*(in United States Dollars)*

	Share Capital \$	Retained Earnings \$	Total \$
<b>Balance as at 31 December 2017</b>	23,158,002	5,306,173	28,464,175
Change in accounting policy	—	774,702	774,702
Profit attributable to equity holders	—	3,524,686	3,524,686
<b>Balance as at 31 December 2018 <sup>(1)</sup></b>	23,158,002	9,605,561	32,763,563
Change in accounting policy (note 1.14)	—	10,661,011	10,661,011
Adjusted balance as at 1 January 2019	23,158,002	20,266,572	43,424,574
Profit attributable to equity holders	—	3,948,497	3,948,497
<b>Balance as at 31 December 2019</b>	23,158,002	24,215,069	47,373,071

<sup>(1)</sup> The Company has initially applied IFRS 16 using the cumulative effect method. Under this method, the comparative information is not restated (see Note 1.14).

The accompanying notes on pages 16 to 39 form part of the financial statements.



# **CASH FLOW STATEMENT**

**For the year ended 31 December 2019**  
**(in United States Dollars)**

	2019	2018
	\$	\$
<b>Cash flows from operating activities:</b>		
Profit attributable to equity holders	3,948,497	3,524,686
Taxation expense	827,096	710,516
Interest expense	6,294,799	1,530,432
Interest income	(496,124)	(381,098)
Amortisation of guarantee liability included in other income	(233,313)	(233,312)
Foreign currency exchange loss/(gain)	68,567	(10,860)
Operating profit from continuing operations	10,409,522	5,140,364
Adjustments for:		
Depreciation and amortisation	828,624	3,924,103
Amortisation of contract costs (note 2c)	66,162	86,805
	11,304,308	9,151,272
Increase in accrued revenue and other receivables	(576,404)	(475,628)
Decrease in prepayments and advances	81,792	82,197
Increase in restricted cash	(1,552,710)	—
Decrease in accounts receivable	1,660,788	—
Increase/(decrease) in accounts payable and accrued liabilities	1,706,208	(216,836)
Net increase in due from and to related parties	(801,867)	(7,104,234)
Recoveries for dry docking	—	379,122
Increase in unearned revenue	139,669	—
Income taxes paid	(874,848)	(273,047)
Interest expense paid	(6,269,876)	(1,715,337)
Interest income received	121,430	69,945
Proceeds from lease receipts	9,185,288	—
Net cash inflow/(outflow) from operating activities	14,123,778	(102,546)
<b>Cash flows from financing activities</b>		
Repayment of bond payable to related party	(1,666,666)	(1,666,667)
Repayment of finance lease liability	(7,329,325)	—
Net cash outflow from financing activities	(8,995,991)	(1,666,667)
<b>Net increase/(decrease) in cash</b>	5,127,787	(1,769,213)
Cash at beginning of year	3,231,036	5,000,249
<b>Cash at end of year</b>	8,358,823	3,231,036

The accompanying notes on pages 16 to 39 form part of the financial statements.

**Notes (forming part of the financial statements)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting entity**

Tangguh Sago Operating Limited (the "Company") is incorporated, domiciled and registered in the United Kingdom and a wholly owned subsidiary of Teekay BLT Corporation (the "Parent"). The registered number is 06433805 and the address of its registered office is 2<sup>nd</sup> Floor, 86 Jermyn Street, London, SW1Y 6JD.

The Company's financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs").

The accounting policies set out below have, unless otherwise stated, been applied consistently to all years presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below in Note 1.5, Use of estimates and judgements.

**1.1 Basis of preparation**

The financial statements are prepared on the historical cost basis except financial instruments measured at fair value through the income statement. Non-current assets are stated at the lower of previous carrying amount and fair value less costs to sell.

**1.2 Going concern**

The directors are of the opinion that the Company's cash flow forecasts and revenue projections show that the Company will have sufficient funds to meet its liabilities as they fall due. The Parent company has provided an undertaking that it will continue to provide adequate financial support to the Company in order that it can meet its liabilities as and when they fall due and has also guaranteed the payment and recoverability of all inter-company balances with the Company. The directors have no reason to believe that this financial support will not continue in the future and that the Company has adequate resources to continue in operational existence for at least the next twelve months. For this reason they continue to adopt going concern basis in preparing the financial statements.

**Notes (continued)**

**1.3 Classification of financial instruments issued by the Company**

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital exclude amounts in relation to those shares.

**1.4 Foreign currency**

The financial statements are stated in U.S. Dollars and the functional currency of the Company is the U.S. Dollar. Transactions involving other currencies during the year are converted into U.S. Dollars using the exchange rates in effect at the time of the transactions. At the balance sheet date, monetary assets and liabilities that are denominated in currencies other than the U.S. Dollar are translated to reflect the year end exchange rates. Resulting gains and losses are reflected in foreign currency exchange gain/(loss) in the accompanying income statement.

**1.5 Use of estimates and judgments**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future years.

The key estimation and judgement areas are as follows:

Significant items subject to such estimates and judgements consists of provisions related to open tax positions (see Note 12).

The accounting policies set out below have been applied consistently to all years presented in these financial statements.

**Notes (continued)**

**1.6 Non-derivative financial instruments**

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, restricted cash, loans and borrowings, and trade and other payables.

*Trade and other receivables*

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

*Trade and other payables*

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement. The Company classifies all highly-liquid investments with an original maturity date of three months or less as cash and cash equivalents.

*Restricted cash*

The Company maintains restricted cash deposits relating to amounts received from charterers to be used only for dry-docking expenditures and emergency repairs and other obligations.

*Interest-bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

## Notes (continued)

### 1.7 Vessel equipment and modifications

Vessel equipment and modifications, not including dry-docking expenditures, include the addition of new equipment or certain modifications to the vessel which are aimed at improving or increasing the operational efficiency and functionality of the asset. This type of expenditure is capitalised and depreciated on a straight-line basis over the estimated useful life of the modification. Expenditures covering recurring routine repairs and maintenance are expensed as incurred. Generally, the Company dry docks its leased vessel every two and a half to five years. The Company capitalises certain costs incurred during dry docking and amortises those costs on a straight-line basis from the completion of a dry docking to the estimated completion of the next dry docking. The Company includes in capitalised dry docking those costs incurred as part of the dry docking to meet classification and regulatory requirements. The carrying value of the dry-docking component included as part of vessel equipment and modifications as of 31 December 2019 was \$1.9 million (2018 - \$2.6 million).

### 1.8 Revenues

The Company's time-charter contract is accounted for and reflected on the balance sheet as a finance lease receivable (see Note 1.14) and contains both a lease component (lease of the vessel) and a non-lease component (operation of the vessel). The Company has allocated the contract consideration between the lease component and non-lease component on a relative standalone selling price basis. The standalone selling price of the non-lease component has been determined using a cost-plus approach, whereby the Company estimates the cost to operate the vessel using cost benchmarking studies prepared by a third party, when available, or internal estimates when not available, plus a profit margin. The standalone selling price of the lease component has been determined using an adjusted market approach, whereby the Company calculates a rate excluding the operating component based on a market time-charter rate from published broker estimates, when available, or internal estimates when not available. Given that there are no observable standalone selling prices for either of these two components, judgment is required in determining the standalone selling price of each component.

Upon commencement of a time charter accounted for as a finance lease, the carrying value of the vessel is derecognised and the finance lease receivable is recognised, based on the fair value of the vessel. For finance leases, the lease element of time-charter hire receipts is allocated to the lease receivable and voyage revenues over the term of the lease using the effective interest rate method. The Company assesses the finance lease receivable for impairment, based on the cash flows that the lessor would expect to receive from the lease receivable and the unguaranteed residual asset during and following the end of the remaining charter term. The non-lease element of time-charter hire receipts is recognised by the Company on a straight-line basis daily over the term of the charter. In addition, if collectability of non-lease receipts of charter payments from the charterer is not probable, any such receipts are recognised as a liability unless the receipts are non-refundable and either the time-charter contract has been terminated or the Company has no remaining performance obligations.

The Company does not recognise revenues during days that the vessel is off-hire. When the time charter contains a variable consideration, the Company recognises contingent revenues in the period in which the changes in facts and circumstances on which the variable charter hire payments are based occur, except dry dock cost reimbursements allocable to the non-lease element of a time-charter contract where such revenue is recognised on a straight-line basis over the period between the previous scheduled dry dock and the next scheduled dry dock.

**Notes (continued)**

**1.9 Expenses**

*Operating expenses*

Voyage expenses include all expenses unique to a particular voyage, including fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions. The Company's customer pays voyage expenses under the time-charter contract, except when the vessel is off-hire during the term of the time-charter contract, in which case the Company pays voyage expenses.

Vessel operating expenses include crewing, ship management services, repairs and maintenance, insurance, stores, lube oils and communication expenses.

Voyage expenses and vessel operating expenses are recognised when incurred except when the Company incurs pre-operational costs related to the repositioning of a vessel (i) that relates directly to a specific customer contract, (ii) that generates or enhances resources of the Company that will be used in satisfying performance obligations in the future; and (iii) where such costs are expected to be recovered via the customer contract. In this case, such costs are deferred and amortised over the duration of the customer contract.

*Finance income and expenses*

Financing expenses comprise interest payable, unwinding of the discount on provisions, and net foreign currency exchange losses that are recognised in the income statement (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Finance income comprise interest receivable on funds invested, dividend income, and net foreign currency exchange gains.

Interest income and interest payable is recognised in the income statement as it accrues, using the effective interest rate method. Foreign currency exchange gains and losses are reported on a net basis.

**Notes (continued)**

**1.10 Lease obligations**

As of the lease commencement date, the Company recognises a liability for its lease obligation, initially measured at the present value of lease payments not yet paid, and an asset for its right to use the underlying asset, initially measured equal to the lease liability and adjusted for lease payments made at or before lease commencement, lease incentives, and any initial direct costs. The initial recognition of the lease obligation and right-of-use asset excludes short-term leases for the Company's vessel. Short-term leases are leases with an original term of one year or less, excluding those leases with an option to extend the lease for greater than one year or an option to purchase the underlying asset that the lessee is deemed reasonably certain to exercise. The initial recognition of this lease obligation and right-of-use asset excludes variable lease payments that are based on the usage or performance of the underlying asset and the portion of payments related to non-lease elements of vessel charters.

The Company uses the effective interest rate method to subsequently account for the lease liability, whereby interest is recognised as interest expense in the Company's income statement. For those leases classified as finance leases, the right-of-use asset is amortised on a straight-line basis over the remaining life of the vessel, with such amortisation included in depreciation and amortisation in the Company's income statement. Variable lease payments that are based on the usage or performance of the underlying asset are recognised as an expense when incurred, unless achievement of a specified target triggers the lease payment, in which case an expense is recognised in the period achievement of the target is considered probable.

The Company has determined its bareboat-charter-in contract consists of only a lease component (lease of the vessel). The discount rate of the lease is determined using the Company's incremental borrowing rate, which is based on the fixed interest rate the Company could obtain when entering into a secured loan facility with similar terms.

In periods prior to the adoption of IFRS 16, *Leases*, (see Note 1.14), the Company's accounting policy was to recognise the expense from vessels bareboat-chartered from other owners, which was included in rental expense, on a straight-line basis over the firm period of the charters.

**Notes (continued)**

**1.11 Income taxes**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

**1.12 Guarantee liability**

The fair value of the Company's guarantee liability is determined and recorded as a liability at the time the guarantee is given. The Company amortises the guarantee liability over the relevant time period as part of other income in its income statement. When it becomes probable that the Company will have to perform on a guarantee, the Company will accrue a separate liability if it is reasonably estimated, based on the facts and circumstances at that time.

**1.13 Employee benefits**

**Defined contribution plans**

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.



**Notes (continued)**

**1.14 Changes in accounting policy**

*IFRS 16 - Leases*

The Company has initially applied IFRS 16, *Leases*, ("IFRS 16") from 1 January 2019.

In January 2016, the IASB issued IFRS 16, *Leases*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract and replaces the previous leases standard, IAS 17, *Leases* ("IAS 17"). IFRS 16, which is not applicable to service contracts, but only applicable to leases or lease components of a contract, defines a lease as a contract that conveys to the customer (lessee) the right to use an asset for a period of time in exchange for consideration. IFRS 16 eliminates the classification of leases for the lessee as either operating leases or finance leases as required by IAS 17 and instead, introduces a single lessee accounting model whereby a lessee is required to recognise assets and liabilities for all leases with a term that is greater than 12 months, unless the underlying asset is of low value, and to recognise depreciation of leases assets separately from interest on lease liabilities in the income statement. As IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, a lessor will continue to classify its leases as operating leases or finance leases and to account for those two types of leases differently. However, in cases where an asset is leased from a third party (headlease) and subleased to another party, IFRS 16 has modified the lease classification tests of the sublease. More specifically, IFRS assesses the sublease classification by reference to the right of use asset from the headlease instead of the underlying asset. IFRS 16 became effective for the Company as of 1 January 2019. The Company has applied IFRS using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period, and therefore the comparative information throughout these financial statements has not been restated to reflect the requirement of the new standards and continues to be reported under IAS 17. To determine the cumulative effect adjustment, the Company did not reassess lease classification, initial direct costs for any existing leases and whether any expired or existing contracts are or contain leases.

*Impact on lessee accounting*

IFRS 16 changes how the Company accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet. Upon the adoption of IFRS 16, the Company's bareboat charter-in 20-year variable-rate lease contract with a third-party company ending in March 2029 was recognised as an operating lease liability on the Company's balance sheet calculated as the present value of the remaining minimum lease payments, discounted using the Company's incremental borrowing rate at 1 January 2019. The right-of-use asset and lease liability recognised on 1 January 2019 were both \$95.4 million, respectively.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest rate method) and by reducing the carrying amount to reflect the lease payments made.

The Company recognises the interest on lease liabilities as interest expense in the income statement and separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (present within operating activities) in the cash flow statement.

## Notes (continued)

### *Impact on lessor accounting*

The vessel the Company has bareboat chartered-in has been time-chartered out to a third party. Under IFRS 16, the Company is considered to be an intermediate lessor, whereby the Company as lessee leases the vessel from a lessor (the "head lease") and then releases the same vessel to a third party (the "sublease"). The Company is required to account for the head lease and the sublease as two separate contracts under IFRS 16. IFRS 16 requires, upon adoption, a reassessment of the lease classification of the sublease and this has resulted in a change to the classification of the time-charter out contract with The Tangguh Production Sharing Contractors ending in May 2029 to a finance lease from its former classification as an operating lease. Consequently, the Company has immediately derecognised the \$95.4 million right of use asset from head lease and a \$139.0 million finance lease receivable has been recognised on the sublease. In recognising the finance lease receivable, the Company has reclassified its \$30.8 million existing intangible asset in respect of the time-charter from an intangible asset to form part of the finance lease receivable balance (Note 7). The net impact of the above IFRS 16 adjustments is reflected as a \$10.6 million (net of \$2.2 million of income taxes) increase to retained earnings.

The Company measured the finance lease receivable as remaining lease payments, discounted using a rate of interest that cause the present value to be equal to the fair value of the underlying assets.

The Company, as the lessor, recognises finance income over the lease term so as to reflect a constant periodic rate of return on its finance lease receivable by allocating the rentals received by the lessor between revenue to the lessor and repayment of the finance lease receivable balance.

## 2. REVENUES AND LEASE LIABILITIES

The Company's primary source of revenue is chartering its LNG carrier on a time-charter contract with The Tangguh Production Sharing Contractors (or the "Charterer") until its scheduled expiry in 2029. This time-charter contract has options whereby the Charterer can extend the contract for a period to be agreed upon between the Company and the Charterer 12 months in advance of the scheduled contract expiration date. This time-charter contract is subject to certain termination provisions.

Pursuant to a time-charter contract, the Company charters a vessel to a customer for a fixed period of time. The performance obligations of a time-charter contract, which include the lease of the vessel to the charterer as well as the operation of the vessel, are satisfied as services are rendered over the duration of such contract, as measured using the time that has elapsed from commencement of performance. In addition, any expenses unique to a particular voyage, including any fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions, are the responsibility of the customer, as long as the vessel is not off-hire. Hire is based, in part, on a fixed daily hire amount and is invoiced monthly in advance for time-charter contracts. However, certain sources of variability exist, including penalties, such as those that relate to periods the vessels are off-hire and where minimum speed and performance metrics are not met. In addition, these time-charter contracts contain provisions allowing the Company to be compensated for increases in the Company's costs during the term of the charter. Such provisions are in the form of annual hire rate adjustments for changes in inflation indices or in the form of cost reimbursements for vessel operating expenditures or dry-docking expenditures. The Company does not engage in any specific tactics to minimise residual value risk.

**Notes (continued)**

**2. REVENUES AND LEASE LIABILITIES (continued)**

**a) Revenue and Finance Lease**

Prior to 1 January 2019, the Company's time-charter contract was accounted for as an operating lease and rental income was recorded as voyage revenues prior to 1 January 2019. Following adoption of IFRS 16 at 1 January 2019, this time-charter contract was classified as a new finance lease and as such, rentals received by the Company are allocated between revenue and repayment of the finance lease receivable balance.

The following table contains the Company's total revenue for the year ended 31 December 2019 and 2018, by components of contracts accounted for as leases:

	2019 \$	2018 \$
Lease rental income	—	19,532,610
Lease revenue - interest income on lease receivable	10,347,323	—
Non-lease revenue	7,069,805	8,591,387
Total	17,417,128	28,123,997

The following table lists the components of the finance lease receivable at the date of initial application on 1 January 2019 and as at 31 December 2019:

	As at 31 December 2019 \$	As at 1 January 2019 \$
Total lease payments to be received	181,733,544	201,266,154
Unearned revenue	(51,918,832)	(62,266,154)
Total finance lease receivable	129,814,712	139,000,000
Less current portion	(9,923,029)	(9,185,288)
Finance lease receivable	119,891,683	129,814,712

As at 31 December 2019, estimated lease payments to be received by the Company relating to its finance lease receivable including interest in each of the next five succeeding fiscal years were approximately \$19.6 million (2020), \$19.5 million (2021), \$19.5 million (2022), \$19.5 million (2023), \$19.6 million (2024) and an aggregate of \$84.0 million thereafter. The lease is scheduled to end in 2029.

**Notes (continued)**

**2. REVENUES AND LEASE LIABILITIES (continued)**

**b) Chartered-in Vessel**

The Company is a party to a 20-year variable-rate lease ending in January 2029, whereby it is the lessee and is leasing a vessel from a third-party company.

Until 1 January 2019, the lease was classified as an operating lease under IAS 17 and the rental payments were recorded as rental expenses in the Company's income statement. Following adoption of IFRS 16 at 1 January 2019, the operating lease contract was recognised as a lease liability on the Company's balance sheet calculated as the present value of the remaining minimum lease payments.

The explanation of the difference between operating lease commitments disclosed as at 31 December 2018 when applying IAS17 to the finance lease liability recognised as at 1 January 2019, and the movement in the finance lease liability for year 2019 is presented in the table below:

	<b>As at 1 January 2019 \$</b>
Operating lease commitment as at 31 December 2018 under IAS17	125,644,511
Less lease payment accrued up to 31 December 2018	(2,553,104)
The effect of discounting remaining lease payments at 1 January 2019	(27,717,594)
Lease liability as at 1 January 2019	<u>95,373,813</u>

The discount rate used on the remaining lease payments at 1 January 2019 was 5.0%. During the year, the Company made rental payments of \$12.1 million (2018 – \$12.2 million), of which \$4.8 million was recorded as interest expense and \$7.3 million was recorded as a reduction of finance lease liability.

The following table shows the movement in finance lease liability for year 2019:

	<b>As at 31 December 2019 \$</b>	<b>As at 1 January 2019 \$</b>
Lease liabilities recognised under IFRS 16	95,373,813	95,373,813
Principal repayments	(7,329,325)	—
Total finance lease liability	88,044,488	95,373,813
Less current portion	(7,682,891)	(7,329,325)
Long-term finance lease liability	<u>80,361,597</u>	<u>88,044,488</u>

**Notes (continued)**

**2. REVENUES AND LEASE LIABILITIES (continued)**

**b) Chartered-in Vessel (continued)**

As at 31 December 2019, the remaining commitments including interest related to the finance lease liability approximated \$113.6 million (2018 – \$125.6 million), repayable from 2020 through 2028, as indicated below:

	2019 \$	2018 \$
Less than one year	12,069,220	12,069,220
Between one and five years	48,276,878	48,276,878
More than five years	53,229,193	65,298,413
	<u>113,575,291</u>	<u>125,644,511</u>

**c) Contract Costs**

The Company incurred pre-operational costs that relate directly to the time-charter customer contract, that generate or enhance resources of the Company that will be used in satisfying performance obligations in the future, whereby such costs are expected to be recovered via the customer contract. Those costs include costs incurred to reposition a vessel to a location where a charterer will take delivery of the vessel. In certain cases, the Company must make judgments about whether costs relate directly to a specific customer contract or whether costs were factored into the pricing of a customer contract and thus expected to be recovered. Such deferred costs are amortised on a straight-line basis over the duration of the customer contract. Amortisation of such costs for year ended 31 December 2019 was \$0.1 million (2018 – \$0.1 million). As at 31 December 2019, repositioning costs of \$0.6 million (2018 – \$0.7 million) were included as part of accrued revenue and other assets in the Company's balance sheet.

As at 31 December 2019, the Company had an nominal amount and \$0.1 million of advanced payments recognised as contract liabilities and are included in the current portion of unearned revenue and non-current unearned revenue, respectively, in the Company's balance sheet (31 December 2018 – \$nil) which are expected to be recognised as voyage revenues from 2020 to 2029. The Company recognised a nominal amount and \$nil of revenue for the years ended 31 December 2019 and 2018, respectively, related to these contract liabilities.

**d) Contract Balances**

The following table provides information about receivables and contract assets from contracts with customers:

	2019 \$	2018 \$
Accounts receivable – trade, included in accounts receivable	—	1,666,049
Accrued revenue included in accrued revenue and other assets	2,479,430	1,903,026
Contract costs included in accrued revenue and other assets (note 2c)	621,736	687,897

**Notes (continued)**

**3. AUDITOR'S REMUNERATION**

	2019 \$	2018 \$
Audit of these financial statements pursuant to legislation included as part of professional fees	22,000	13,000

Amounts receivable by the Company's auditor in respect of services to the Company and its associates, other than the audit of the Company's financial statements, has been disclosed on a consolidated basis in the consolidated financial statements of the Company's parent, Teekay BLT Corporation.

**4. STAFF NUMBERS AND COSTS**

The average number of seagoing staff that served on the vessel the Company operates for the year was 27 (2018 – 28).

The aggregate staff costs included in vessel operating expenses in the Company's income statement were as follows:

	2019 \$	2018 \$
Wages and salaries	1,934,572	1,974,927
Pensions	31,570	27,872
Other staff costs	171,200	337,627
	2,137,342	2,340,426

**5. DIRECTORS' EMOLUMENTS**

The directors did not receive any emoluments for the current or prior year covered by this report and the financial statements. The directors who served during the year were employed by other group companies and were remunerated through those companies. The directors did not provide any material qualifying services to the Company. No directors benefited from qualifying third-party indemnity provisions.

**6. VESSEL EQUIPMENT AND MODIFICATIONS**

	Cost \$	Accumulated depreciation \$	Net book value \$
Balance as at 31 December 2017	9,306,220	(4,248,702)	5,057,518
Net cost recoveries	(379,122)	-	(379,122)
Depreciation and amortisation	-	(968,227)	(968,227)
Balance as at 31 December 2018	8,927,098	(5,216,929)	3,710,169
Depreciation and amortisation	-	(828,624)	(828,624)
Balance as at 31 December 2019	8,927,098	(6,045,553)	2,881,545

**Notes (continued)**

**7. INTANGIBLE ASSET**

As at 31 December 2018, the intangible asset consists of a time-charter contract with an amortisation period of 20 years. As at 1 January 2019 the intangible asset of \$30.8 million was reclassified as part of the finance lease receivable on the Company's balance sheet upon adoption of IFRS 16. See Note 1.14 for details.

The following table shows the movement in intangible asset for year 2019:

	<b>Intangible Assets</b>
	<b>\$</b>
Gross carrying amount	59,158,000
Accumulated amortisation	(28,376,404)
Net carrying amount at 31 December 2018	30,781,596
Reclassified from adoption of IFRS 16 (Note 1.14)	(30,781,596)
Net carrying amount at 1 January 2019 and 31 December 2019	—

Amortisation expense of the intangible asset for the year ended 31 December 2019 was \$nil (2018 - \$3.0 million).

**8. SHARE CAPITAL**

	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<b>Issued and outstanding</b>		
14,028,770 Common shares of \$1.65 each	23,158,002	23,158,002

The Company is a wholly-owned subsidiary of Teekay BLT Corporation. The Company's capital management is determined by its parent company's shareholders' agreement. No changes were made in the objectives, policies or processes during the year ended 31 December 2019.

The holders of common shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

**9. ACCRUED LIABILITIES**

	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Voyage and vessel expenses	4,497,558	2,992,037
Interest	43,361	27,263
Income taxes	353,448	869,028
Other general expenses	34,800	37,660
	4,929,167	3,925,988

**Notes (continued)**

**10. RELATED PARTY TRANSACTIONS**

- a) The Company has entered into service agreements with Teekay Shipping Limited, a company under common control, under which Teekay Shipping Limited provides the Company with corporate and technical ship management services. In addition, crew training was provided to the Company by Teekay Shipping Limited. These services are measured at the exchange amount between the parties. For the periods indicated, these related party transactions were as follows:

	2019 \$	2018 \$
Crew training expenses included in vessel operating expenses	128,817	79,103
Ship management services included in vessel operating expenses	471,997	462,742
Corporate services included in general and administrative expenses	66,827	65,557

- b) From time to time, other payments are made by affiliates on behalf of the Company that are not specific to any agreements described above.
- c) During the year, the Company incurred interest expenses relating to its fixed-rate bond of \$1.4 million (2018 – \$1.5 million). The interest rate on the bond is 8% per annum and matures in 2029.
- d) As at 31 December 2019 and 2018, the Company's promissory notes from Teekay BLT Corporation total \$8.5 million and \$8.1 million, respectively, and associated accrued interest of \$1.0 million and \$0.6 million, respectively. The Company recorded \$0.4 million and \$0.3 million of interest income on these promissory notes for the years ended 31 December 2019 and 2018, respectively. The interest rate on the promissory notes is LIBOR plus 2% margin per annum and have no fixed repayment terms.
- e) As at 31 December 2019, all advances to and from related parties are non-interest bearing, unsecured and have no fixed repayment terms except for the bond payable to Teekay BLT Finance Corporation and the notes receivable from Teekay BLT Corporation. Balances with related parties under common control or ownership as at 31 December 2019 are as follows:

Due from/to related parties - current	Receivables outstanding 2019 \$	Receivables outstanding 2018 \$	Creditors outstanding 2019 \$	Creditors outstanding 2018 \$
Teekay Shipping Limited	—	563,702	3,374	—
Tangguh Hiri Operating Limited	—	—	—	156,439
Tangguh Sago Finance Limited	—	10,340,784	—	—
Teekay BLT Corporation	—	—	1,769,480	1,690,961
Teekay BLT Finance Corporation	—	—	722,222	794,444
	—	10,904,486	2,495,076	2,641,844



**Notes (continued)**

**10. RELATED PARTY TRANSACTIONS (continued)**

Due from related parties - non-current	Receivables outstanding 2019 \$	Receivables outstanding 2018 \$	Creditors outstanding 2019 \$	Creditors outstanding 2018 \$
Tangguh Sago Finance Limited	11,534,661	—	—	—
	11,534,661	—	—	—

	Notes receivable 2019 \$	Notes receivable 2018 \$
Teekay BLT Corporation	8,461,982	8,087,288

	Bond Payable 2019 \$	Bond Payable 2018 \$
Teekay BLT Finance Corporation	16,666,666	18,333,333
Less current portion	(1,666,666)	(1,666,667)
	15,000,000	16,666,666

**11. GUARANTEE LIABILITY**

Under the Company's sublease agreement (see Note 2), the Company guarantees to make payments to a third-party company for any losses suffered by the third-party company relating to tax law changes. The indemnification would be for 24 years, which is the duration of the lease contract with the third party plus the years it would take for the lease payments to be statute barred. There is no maximum potential amount of future payments; however, the Company may terminate the lease arrangement at any time. The Company's carrying amount of the guarantee liability is \$3.1 million (2018 – \$3.3 million). The amortisation of the guarantee liability of \$0.2 million (2018 – \$0.2 million) is included as part of other income in the Company's income statement.

**Notes (continued)**

**12. TAXATION**

a) Recognised in the income statement

	2019 \$	2018 \$
Current tax		
Current year	—	(780,770)
Adjustments for prior years	(39,242)	1,720
Current tax expense	(39,242)	(779,050)
Deferred tax		
Origination and reversal of temporary differences	(787,854)	68,534
Deferred tax credit	(787,854)	68,534
Total taxation expense reported in the income statement	(827,096)	(710,516)
Tax expense recognised in opening retained earnings from IFRS 16 adoption		
Intangible assets reclassified from adoption of IFRS 16 (Note 7)	5,232,872	—
Right-of-use assets recognized from adoption of IFRS 16	(7,416,452)	—
Total taxation expense reported in the opening retained earnings	(2,183,580)	—

b) Reconciliation of effective tax rate

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 19% (2018 – 19%). The differences are explained below:

	2019 \$	2018 \$
Profit for the year	3,948,497	3,524,686
Total taxation expense	827,096	710,516
Profit before taxation	4,775,593	4,235,202
Amount computed using the UK standard corporate rate 19% (2018 – 19%)	(907,363)	(804,688)
Effect of:		
Permanent differences	31,759	27,836
Other – net	48,508	66,336
Total taxation expense reported in the income statement	(827,096)	(710,516)

**Notes (continued)**

**12. TAXATION (continued)**

c) Movement in deferred tax (liabilities)/assets

The movements in deferred tax (liabilities)/assets were as follows:

	2019 \$	2018 \$
Deferred tax (liabilities)/assets:		
Balance as at 1 January	7,030	(61,504)
Changes recognised in profit or loss:		
Vessel equipment and modifications	(1,493)	68,534
Loss carry forward	3,622,460	—
Right of use asset recognition adoption of IFRS 16	(6,592,401)	—
Balance as at 31 December	(2,964,404)	7,030
Deferred tax assets, current	414,382	7,030
Deferred tax liabilities	(3,378,786)	—
Net deferred tax (liabilities)/assets	(2,964,404)	7,030

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. This will increase the company's future current tax charge accordingly. The deferred tax liability at 31 December 2019 has been calculated based on the rate of 17% as this is the rate that was substantively enacted at the balance sheet date. If the deferred tax liabilities were to be calculated based on the 19% tax rate the deferred tax liabilities will be increased by \$0.3 million.

During the year ended 31 December 2017, the Company made a provision relating to an ongoing matter with HMRC. Due to the uncertainty associated with such tax positions, it is possible that at a future date, on conclusion of these open tax positions, the final outcome may vary significantly, with the maximum additional liability that may be incurred would be in the range of \$nil to \$10 million. Whilst a range of outcomes is possible, based on management's experience of these issues, the Company believes it is not probable any amounts exceeding the current provision would be incurred.

**Notes (continued)**

**13. FAIR VALUE MEASUREMENTS**

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

**Cash and restricted cash** – The fair value of the Company's cash and restricted cash approximates its carrying amount reported on the balance sheet.

**Due from related parties - non-current** – The fair value of the Company's receivable from related parties - non-current is not determinable given the amounts have no fixed repayment terms.

**Notes receivable from related party** – The fair value of the Company's notes receivable from related party is not determinable given the notes have no fixed repayment terms.

**Bond payable to related party** – The fair value of the Company's fixed-rate bond is estimated using discounted cash flow analyses based on the current credit worthiness of the underlying time-charter counterparty and credit worthiness at the issuance of the fixed-rate bond.

**Fair value hierarchy**

The Company categorises the fair value estimates by a fair value hierarchy based on the inputs used to measure fair value. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value as follows:

- Level 1. Observable inputs such as quoted prices in active markets;
- Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The Company does not have any financial instruments that are recorded at fair value on a recurring basis. The estimated fair value of the Company's financial instruments is as follows:

	Fair Value Hierarchy Level	2019		2018	
		Carrying Amount Asset/ (Liability) \$	Fair Value Asset/ (Liability) \$	Carrying Amount Asset/ (Liability) \$	Fair Value Asset/ (Liability) \$
Cash	Level 1	8,358,823	8,358,823	3,231,036	3,231,036
Restricted cash	Level 1	1,552,710	1,552,710	—	—
Due from related parties - non-current	Level 1	11,534,661	11,534,661	—	—
Notes receivable from related party	Level 1	8,461,982	8,461,982	8,087,288	8,087,288
Bond payable to related party	Level 2	(16,666,666)	(16,648,740)	(18,333,333)	(18,314,602)

There have been no transfers between levels in 2019 and 2018. No non-financial assets or non-financial liabilities were carried at fair value at 31 December 2019 and 2018.

**Notes (continued)**

**14. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT**

**a) Financial instruments**

Financial instruments are either measured at amortised cost or fair value. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortised cost. Held-for-trading financial assets and liabilities and available-for-sale financial assets are measured on the balance sheet at fair value.

The following table provides the carrying value of each category of financial assets and liabilities and the related balance sheet item:

	2019 \$	2018 \$
Financial assets:		
Loans and receivables:		
Cash	8,358,823	3,231,036
Restricted cash	1,552,710	—
Accrued revenue and other receivables	2,589,073	3,673,457
Due from related parties	11,534,661	10,904,486
Notes receivable from related party	8,461,982	8,087,288
<b>Total financial assets</b>	<b>32,497,249</b>	<b>25,896,267</b>
Financial liabilities:		
Other financial liabilities:		
Accounts payable and accrued liabilities	5,082,915	4,143,746
Due to related parties	2,495,076	2,641,844
Bond payable to related party	16,666,666	18,333,333
Finance lease liability	88,044,488	—
<b>Total financial liabilities</b>	<b>112,289,145</b>	<b>25,118,923</b>

At 31 December 2019 and 2018, all the Company's financial instruments are recorded on the balance sheet at amortised cost.

**Notes (continued)**

**14. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)**

b) Financial risk management:

(i) Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient funds to meet its liabilities. The Company maintains liquidity and makes adjustments to it in light of changes in economic conditions, underlying risks inherent in its operations and capital requirements to maintain its operations. At 31 December 2019, the Company had \$8.4 million (2018 – \$3.2 million) of cash.

31 December 2019	Carrying amount \$	Contractual cash flows \$	1 year or less \$	1-3 years \$	3-5 years \$	More than 5 years \$
Accounts payable and accrued liabilities	5,082,915	5,082,915	5,082,915	—	—	—
Due to related parties	2,495,076	2,495,076	2,495,076	—	—	—
Bonds payable to related party <sup>(1)</sup>	16,666,666	24,000,000	3,000,000	5,600,000	7,400,000	8,000,000
Finance lease liability <sup>(2)</sup>	88,044,488	111,022,188	12,069,220	24,138,439	24,138,439	50,676,090
	112,289,145	142,600,179	22,647,211	29,738,439	31,538,439	58,676,090

<sup>(1)</sup> Contractual cash flows include expected interest payments of \$7.3 million.

<sup>(2)</sup> Contractual cash flows include expected interest payments of \$23.0 million.

31 December 2018	Carrying amount \$	Contractual cash flows \$	1 year or less \$	1-3 years \$	3-5 years \$	More than 5 years \$
Accounts payable and accrued liabilities	4,143,746	4,143,746	4,143,746	—	—	—
Due to related parties	2,641,844	2,641,844	2,641,844	—	—	—
Bonds payable to related party <sup>(1)</sup>	18,333,333	27,133,333	3,133,333	5,866,667	7,800,000	10,333,333
	25,118,923	33,918,923	9,918,923	5,866,667	7,800,000	10,333,333

<sup>(1)</sup> Contractual cash flows include expected interest payments of \$8.8 million.

(ii) Credit risk

Credit risk is the risk of financial loss to the Company if a customer fails to meet their contractual obligations and arising principally from the Company's receivables from customers.

The Company trades only with recognised, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances, including the Company's finance lease receivable, are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed on the balance sheet.

**Notes (continued)**

**14. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)**

b) Financial risk management (continued)

(ii) Credit risk (continued)

The ageing of past due but not impaired trade and non-trade accounts receivable was as follows:

	2019 \$	2018 \$
Past due 1 – 30 days	53,139	297,648
Past due 31 – 90 days	—	—
Past due 91 – 120 days	—	1,368,401
Past due over 121 days	56,504	104,382
Total not impaired accounts receivable	109,643	1,770,431

At 31 December 2019, the Company had \$2.6 million of accounts receivable and accrued revenue (2018 – \$3.7 million).

(iii) Market risk – interest rate risk

Interest rate risk is the risk that the Company suffers financial loss due to changes in the value of a financial asset or liability or in the value of future cash flows due to movements in interest rates. The Company's exposure to changes in market interest rates relates primarily to the Company's variable-rate lease liability and notes receivable from a related party. At the balance sheet date, the interest profile of the Company's interest bearing financial instruments was:

*Fixed rate instruments*

Bond payable to related party bears interest at 8% (see Notes 10c and 10e).

*Variable rate instruments*

Notes receivable from related party bears interest at LIBOR plus 2% margin (see Notes 10d and 10e).

*Sensitivity analysis*

A 1% change in LIBOR would have resulted in a change of \$0.1 million in annual profit before tax for the year ended 31 December 2019 (2018 – \$0.1 million). This has been calculated by comparing the interest income results before and after the 1% increase or decrease of the LIBOR. It assumes that all other variables, including foreign currency rates, remain constant. At 31 December 2019, the estimated change in profit before tax was calculated using the same methods and assumptions.

**Notes (continued)**

**14. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)**

b) Financial risk management (continued)

(iv) Foreign currency risk

The Company's functional currency is the U.S. Dollar. The results of operations are affected by fluctuations in currency exchange rates. The volatility in the financial results due to currency exchange rate fluctuations is attributed primarily to foreign currency expenses. A portion of the vessel operating expenses and general and administrative expenses are denominated in various currencies, which is primarily a function of the nationality of the crew. As a result, fluctuations in the other currencies relative to the U.S. Dollar have caused, and are likely to continue to cause, fluctuations in the Company's reported vessel and other operating expenses and foreign currency exchange gain/(loss). A 100-basis point change in foreign currency exchange rates would have a nominal impact on the Company's income statement.

**15. ULTIMATE PARENT COMPANY AND PARENT COMPANY OF LARGER GROUP**

The Company is a subsidiary undertaking of Teekay Corporation which is the ultimate parent company incorporated in the Republic of the Marshall Islands.

The largest group in which the results of the Company are consolidated is that headed by Teekay Corporation, incorporated in the Republic of the Marshall Islands. The smallest group in which it is consolidated is that headed by Teekay BLT Corporation incorporated in the Republic of the Marshall Islands. The Company is also consolidated into Teekay LNG Partners L.P. The consolidated financial statements of Teekay Corporation and Teekay LNG Partners L.P. are available to the public and may be obtained from their offices located at 4th Floor Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08 Bermuda.

**16. COMMITMENTS AND CONTINGENCIES**

At 31 December 2019, there is a performance bond relating to the Company's leased vessel totalling \$2.4 million (2018 – \$2.4 million) whereby the charterer of the vessel can demand to have these bonds paid based on certain conditions occurring. This performance bond has been guaranteed by Teekay Corporation.



**Notes (continued)**

**17. SUBSEQUENT EVENTS**

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (or "COVID-19") as a pandemic. Given the dynamic nature of these circumstances, the full extent to which the COVID-19 pandemic may have direct or indirect impact on the Company's business and the related financial reporting implications cannot be reasonably estimated at this time. As of the date of this report, the Company has not yet experienced any material negative impacts to its business, results of operations, or financial position as a result of COVID-19. As the significant impacts of COVID-19 arose after 31 December 2019, this is considered a non-adjusting post balance sheet event for the company for the year ended 31 December 2019, without prejudice to the fact that the impacts will be recognised as part of the 31 December 2020 year end.

There were no other subsequent events post the balance sheet date and prior to the signing of these accounts that would have a material impact on the results reported or the financial position of the Company.

## **Tangguh Sago Operating Limited**

KPMG LLP  
319 St Vincent Street  
Glasgow  
G2 5AS

30 September 2020

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Tangguh Sago Operating Limited ("the Company"), for the year ended 31 December 2019, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of the Company's profit or loss for the financial year then ended;
- ii. whether the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the EU; and
- iii. whether the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

These financial statements comprise the Balance Sheet, the Income Statement, the Cash Flow Statement, the Statement of Changes in Equity and notes, comprising a summary of significant accounting policies and other explanatory notes.

The Board confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Board confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

### **Financial statements**

1. The Board has fulfilled its responsibilities, as set out in the terms of the audit engagement dated 13 January 2020, for the preparation of financial statements that:
  - i. give a true and fair view of the state of the Company's affairs as at the end of its financial year and of its profit or loss for that financial year;
  - ii. have been properly prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRSs"); and
  - iii. have been prepared in accordance with the requirements of the Companies Act 2006.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Board in making accounting estimates, including those measured at fair value, are reasonable.

3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.

**Information provided**

4. The Board has provided you with:
  - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
  - additional information that you have requested from the Board for the purpose of the audit; and
  - unrestricted access to persons within the Company from whom you determined it necessary to obtain audit evidence.

5. All transactions have been recorded in the accounting records and are reflected in the financial statements.

6. The Board confirms the following:

- i) The Board has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

- ii) The Board has disclosed to you all information in relation to:

- a) Fraud or suspected fraud that it is aware of and that affects the Company and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements; and
- b) allegations of fraud, or suspected fraud, affecting the Company's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Board acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Board acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

7. The Board has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
8. The Board has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

9. The Board has disclosed to you the identity of the Company's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

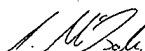
Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them and as defined in IAS 24.

10. The Board confirms that:

- a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Company's ability to continue as a going concern as required to provide a true and fair view and to comply with IAS 1 *Presentation of Financial Statements*.
- b) No material events or conditions have been identified that may cast significant doubt on the ability of the Company to continue as a going concern.

This letter was tabled and agreed at the meeting of the Board of Directors on 30 September 2020.

Yours faithfully,



Christopher McDade  
*Director*

**Appendix to the Board Representation Letter of Tangguh Sago Operating Limited:  
Definitions**

**Financial Statements**

IAS 1.10 states that “a complete set of financial statements comprises:

- a statement of financial position as at the end of the period;
- a statement of profit or loss and other comprehensive income for the period;
- a statement of changes in equity for the period;
- a statement of cash flows for the period;
- notes, comprising a summary of significant accounting policies and other explanatory information;
- comparative information in respect of the preceding period as specified in paragraphs 38 and 38A; and
- a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 40A-40D.

An entity may use titles for the statements other than those used in this Standard. For example, an entity may use the title ‘statement of comprehensive income’ instead of ‘statement of profit or loss and other comprehensive income’.”

**Material Matters**

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

“Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

**Fraud**

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity’s assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

**Error**

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue; and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

### **Management**

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

### **Related Party and Related Party Transaction**

#### **Related party:**

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

- a) A person or a close member of that person's family is related to a reporting entity if that person:
  - i. has control or joint control over the reporting entity;
  - ii. has significant influence over the reporting entity; or
  - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
  - i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - iii. Both entities are joint ventures of the same third party.
  - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
  - vi. The entity is controlled, or jointly controlled by a person identified in (a).
  - vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - viii. The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

- a) a government that has control or joint control of, or significant influence over, the reporting entity; and
- b) another entity that is a related party because the same government has control or joint control of, or significant influence over, both the reporting entity and the other entity.

**Related party transaction:**

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.