# NALCOR ENERGY MARKETING CORPORATION
# CONDENSED INTERIM FINANCIAL STATEMENTS
# June 30, 2016
# (Unaudited)

**NALCOR ENERGY MARKETING CORPORATION**
**STATEMENT OF FINANCIAL POSITION**
**(Unaudited)**

| *As at (thousands of Canadian dollars)* | Notes | **June 30 2016** | December 31 2015 |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets | | | |
| Trade and other receivables | | **2,512** | 1,097 |
| Prepayments | | **242** | 454 |
| Derivative assets | 13 | **23,967** | 61,638 |
| Total current assets | | **26,721** | 63,189 |
| Property, plant and equipment | 4 | **165** | 174 |
| Intangible assets | 5 | **1,009** | 1,121 |
| Total non-current assets | | **1,174** | 1,295 |
| Total assets | | **27,895** | 64,484 |
| **LIABILITIES AND DEFICIENCY** | | | |
| Current liabilities | | | |
| Bank indebtedness | 3 | **7,230** | 4,791 |
| Trade and other payables | | **3,354** | 5,159 |
| Derivative liabilities | 13 | **5** | 4,051 |
| Deferred liability | 6 | **30,620** | 61,241 |
| Total current liabilities | | **41,209** | 75,242 |
| Employee benefits liability | | **662** | 607 |
| Total non-current liabilities | | **662** | 607 |
| Total liabilities | | **41,871** | 75,849 |
| Shareholder’s deficiency | | | |
| Share capital | 9 | **1** | 1 |
| Reserves | | **600** | (1,444) |
| Deficit | | **(14,577)** | (9,922) |
| Total deficiency | | **(13,976)** | (11,365) |
| Total liabilities and deficiency | | **27,895** | 64,484 |

Commitments and contingencies (Note 15)

*See accompanying notes*

**NALCOR ENERGY MARKETING CORPORATION**
**STATEMENT OF LOSS AND COMPREHENSIVE LOSS**
**(Unaudited)**

| *For the period ended June 30 (thousands of Canadian dollars)* | Notes | Three months ended **2016** | Three months ended 2015 | Six months ended **2016** | Six months ended 2015 |
|---|---|---|---|---|---|
| | | | | | (Note 17) |
| Revenue | 14 | **9,014** | 328 | **15,771** | 328 |
| | | | | | |
| Power purchased | | **1,206** | - | **2,064** | - |
| Operating costs | 10 | **7,269** | 775 | **13,869** | 1,559 |
| Depreciation and amortization | 4,5 | **85** | - | **131** | - |
| Net finance (income) expense | 11 | **57** | 22 | **109** | 65 |
| Other (income) expense | 12 | **15,141** | (779) | **4,253** | 3,500 |
| (Loss) profit for the period | | **(14,744)** | 310 | **(4,655)** | (4,796) |
| Other comprehensive income for the period | | | | | |
| Net fair value gain on cash flow hedges | | **202** | - | **2,224** | - |
| Reclassification adjustments related to: | | | | | |
| Cash flow hedges recognized in profit or loss | | **(428)** | - | **(180)** | - |
| *Total items that may or have been reclassified to profit or loss* | | **(428)** | - | **(180)** | - |
| Other comprehensive (loss) income for the period | | **(226)** | - | **2,044** | - |
| Total comprehensive (loss) income for the period | | **(14,970)** | 310 | **(2,611)** | (4,796) |

*See accompanying notes*

**NALCOR ENERGY MARKETING CORPORATION**
**STATEMENT OF CHANGES IN EQUITY**
**(Unaudited)**

| *(thousands of Canadian dollars)* | Notes | Share Capital | Fair Value Reserve | Employee Benefit Reserve | Retained Earnings | Total |
|---|---|---|---|---|---|---|
| **Balance at January 1, 2016** | | **1** | **(1,325)** | **(119)** | **(9,922)** | **(11,365)** |
| **Loss for the period** | | **-** | **-** | **-** | **(4,655)** | **(4,655)** |
| **Other comprehensive income** | | | | | | |
| **Net change in fair value of cash flow hedge** | **8** | **-** | **2,224** | **-** | **-** | **2,224** |
| **Net change in fair value of financial instruments reclassified to profit or loss** | **8** | **-** | **(180)** | **-** | **-** | **(180)** |
| **Total comprehensive income (loss) for the period** | | **-** | **2,044** | **-** | **(4,655)** | **(2,611)** |
| **Balance at June 30, 2016** | | **1** | **719** | **(119)** | **(14,577)** | **(13,976)** |
| | | | | | | |
| Balance at January 1, 2015 | | 1 | - | - | (1,701) | (1,700) |
| Loss for the period | | - | - | - | (4,796) | (4,796) |
| Total comprehensive loss for the period | | - | - | - | (4,796) | (4,796) |
| Balance at June 30, 2015 | | 1 | - | - | (6,497) | (6,496) |

*See accompanying notes*

**NALCOR ENERGY MARKETING CORPORATION**
**STATEMENT OF CASH FLOWS**
**(Unaudited)**

| *For the period ended June 30 (thousands of Canadian dollars)* | Notes | **Three months ended** **2016** | 2015 | **Six months ended** **2016** | 2015 |
|---|---|---|---|---|---|
| Cash provided by (used in) | | | | | |
| Operating activities | | | | | |
| (Loss) profit for the period | | **(14,744)** | 310 | **(4,655)** | (4,796) |
| Adjusted for items not involving a cash flow: | | | | | |
| Depreciation and amortization | 4,5 | **85** | - | **131** | - |
| Employee benefits | 7 | **37** | - | **55** | - |
| Net change in PPA fair value | 12(a) | **13,034** | - | **8,768** | - |
| Loss (gain) on other derivatives | | **1,904** | (1,520) | **(2,158)** | 2,160 |
| | | **316** | (1,210) | **2,141** | (2,636) |
| Changes in non-cash working capital balances | 16 | **(2,964)** | 10,421 | **(3,008)** | 12,474 |
| Net cash (used in) provided from operating activities | | **(2,648)** | 9,211 | **(867)** | 9,838 |
| | | | | | |
| Investing activities | | | | | |
| Additions to property, plant and equipment | 4 | **(3)** | (3) | **(3)** | (3) |
| Additions to intangible assets | 5 | **21** | - | **(7)** | - |
| Additions to financial transmission rights | 13 | **(207)** | (411) | **(1,562)** | (854) |
| Net cash used in investing activities | | **(189)** | (414) | **(1,572)** | (857) |
| | | | | | |
| Net increase in (bank indebtedness) cash and cash equivalents | | **(2,837)** | 8,797 | **(2,439)** | 8,981 |
| (Bank indebtedness) cash and cash equivalents, beginning of period | | **(4,393)** | 209 | **(4,791)** | 25 |
| (Bank indebtedness) cash and cash equivalents, end of period | | **(7,230)** | 9,006 | **(7,230)** | 9,006 |
| | | | | | |
| Interest received | | **-** | - | **-** | 43 |
| Interest paid | | **57** | 3 | **109** | 4 |

*See accompanying notes*

## 1. DESCRIPTION OF BUSINESS

Nalcor Energy Marketing Corporation (Energy Marketing or the Company) was incorporated under the Corporations Act of Newfoundland and Labrador (the Province) on March 24, 2014. The purpose of Energy Marketing is to oversee the sale of energy from existing and future resource developments. Energy Marketing is a 100% owned subsidiary of Nalcor Energy (Nalcor). Energy Marketing's head office is located at 500 Columbus Drive, St. John's, Newfoundland and Labrador, A1B 0P5, Canada.

## 2. SIGNIFICANT ACCOUNTING POLICIES

**Statement of Compliance and Basis of Measurement**
These condensed interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting and have been prepared using accounting policies consistent with those used in the preparation of the annual audited financial statements for the year ended December 31, 2015.

These condensed interim financial statements do not include all of the disclosures normally found in Energy Marketing's annual audited financial statements and should be read in conjunction with the annual audited financial statements.

These condensed interim financial statements have been prepared on a historical cost basis except for available for sale financial assets and derivative instruments which have been measured at fair value. The condensed interim financial statements are presented in Canadian Dollars (CAD) and all values rounded to the nearest thousand, except when otherwise noted. The condensed interim financial statements were approved by Energy Marketing's Board of Directors (the Board) on August 9, 2016.

## 3. CASH AND CASH EQUIVALENTS (BANK INDEBTEDNESS)

Bank indebtedness includes cash deposits held by a Canadian Schedule 1 Chartered bank with a rating of A+ (Standard and Poor's) and funds drawn on Energy Marketing's $20.0 million demand operating credit facility with its bank. The balances are as follows:

| *As at (thousands of Canadian dollars)* | **June 30 2016** | December 31 2015 |
|---|---|---|
| Cash | **2** | 3,372 |
| Bank indebtedness | **(7,232)** | (8,163) |
| | **(7,230)** | (4,791) |

## 4. PROPERTY, PLANT AND EQUIPMENT

| *(thousands of Canadian dollars)* | Computer Hardware and Furniture |
|---|---|
| Cost | |
| Balance at January 1, 2015 | - |
| Additions | 183 |
| Balance at December 31, 2015 | 183 |
| **Additions** | **3** |
| **Balance at June 30, 2016** | **186** |
| | |
| Depreciation | |
| Balance at January 1, 2015 | - |
| Depreciation | 9 |
| Balance at December 31, 2015 | 9 |
| **Depreciation** | **12** |
| **Balance at June 30, 2016** | **21** |
| | |
| Carrying value | |
| Balance at January 1, 2015 | - |
| Balance at December 31, 2015 | 174 |
| **Balance at June 30, 2016** | **165** |

## 5. INTANGIBLE ASSETS

| *(thousands of Canadian dollars)* | Computer Software |
|---|---|
| Cost | |
| Balance at January 1, 2015 | - |
| Additions | 1,180 |
| Balance at December 31, 2015 | 1,180 |
| **Additions** | **7** |
| **Balance at June 30, 2016** | **1,187** |
| | |
| Amortization | |
| Balance at January 1, 2015 | - |
| Amortization | 59 |
| Balance at December 31, 2015 | 59 |
| **Amortization** | **119** |
| **Balance at June 30, 2016** | **178** |
| | |
| Carrying Value | |
| Balance at January 1, 2015 | - |
| Balance at December 31, 2015 | 1,121 |
| **Balance at June 30, 2016** | **1,009** |

## 6. DEFERRED LIABILITY

The deferred liability represents Energy Marketing's current liability related to its annual commitments under the power purchase agreement (PPA) with Newfoundland and Labrador Hydro (Hydro). The PPA, which became effective October 1, 2015, allows Energy Marketing to purchase available recapture energy from Hydro for resale in export markets or through agreements with counterparties. Additionally, the PPA allows for the use of Hydro's transmission service rights by Energy Marketing to deliver electricity, through rights which are provided to Hydro pursuant to a Transmission Service Agreement with Hydro-Quebéc dated April 1, 2009. The PPA can be terminated at the end of any calendar year, with notice provided three months prior to the end of that year. Otherwise, the effective term of the PPA resets at October 1, and the derivative asset relating to the following calendar year is recorded.

On an annual basis, the deferred liability is amortized into income as revenue from the PPA is recognized. The components of change are as follows:

| *As at (thousands of Canadian dollars)* | **June 30 2016** | December 31 2015 |
|---|---|---|
| Deferred liability, beginning of period | **61,241** | - |
| Additions | **-** | 74,946 |
| Amortization | **(30,621)** | (13,705) |
| Deferred liability, end of period | **30,620** | 61,241 |

## 7. EMPLOYEE BENEFITS LIABILITY

### 7.1 Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions for the period ended June 30, 2016 of $85,100 (2015 - $73,300) are expensed as incurred.

### 7.2 Other Benefits

Energy Marketing provides group life insurance and health care benefits on a cost shared basis to retired employees, and in certain cases, their surviving spouses, in addition to a severance payment upon retirement. There were no cash payments to beneficiaries for its unfunded other employee benefits during 2016 (2015 - $nil). An actuarial valuation was performed as at December 31, 2015, with an extrapolation to December 31, 2016.

| | **Three months ended** | | **Six months ended** | |
|---|---|---|---|---|
| *For the period ended June 30 (thousands of Canadian dollars)* | **2016** | 2015 | **2016** | 2015 |
| Component of benefit cost | | | | |
| Current service cost | **27** | - | **41** | - |
| Interest cost | **10** | - | **14** | - |
| Total benefit expense for the period | **37** | - | **55** | - |

## 8. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

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

| *(thousands of Canadian dollars)* | **2016** | 2015 |
|---|---|---|
| Employee benefits liability | | |
| Balance at January 1 | **607** | - |
| Net actuarial (gains) losses on defined benefit plans | **-** | - |
| Balance at June 30 | **607** | - |

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

| *(thousands of Canadian dollars)* | **2016** | 2015 |
|---|---|---|
| Cash flow hedges | | |
| Balance at January 1 | **(1,325)** | - |
| Fair value gains during the period | **2,224** | - |
| Reclassification adjustments for amounts recognized in profit or loss | **(180)** | - |
| Balance at June 30 | **719** | - |

## 9. SHAREHOLDER'S EQUITY

| | **June 30** | December 31 |
|---|---|---|
| *As at (thousands of Canadian dollars)* | **2016** | 2015 |
| Share capital | | |
| Authorized - unlimited | | |
| Issued and outstanding - 100 | **1** | 1 |

## 10. OPERATING COSTS

| | **Three months ended** | | **Six months ended** | |
|---|---|---|---|---|
| *For the period ended June 30 (thousands of Canadian dollars)* | **2016** | 2015 | **2016** | 2015 |
| Transmission rental | **5,403** | - | **10,523** | - |
| Salaries and benefits | **807** | 491 | **1,533** | 1,033 |
| Professional services | **861** | 194 | **1,436** | 324 |
| Other operating costs | **198** | 90 | **377** | 202 |
| | **7,269** | 775 | **13,869** | 1,559 |

## 11. NET FINANCE (INCOME) EXPENSE

| | **Three months ended** | | **Six months ended** | |
|---|---|---|---|---|
| *For the period ended June 30 (thousands of Canadian dollars)* | **2016** | 2015 | **2016** | 2015 |
| Bank and interest charges | **57** | 3 | **109** | 4 |
| Other finance costs | **-** | 19 | **-** | 61 |
| Net finance (income) expense | **57** | 22 | **109** | 65 |

## 12. OTHER (INCOME) EXPENSE

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| *For the period ended June 30 (thousands of Canadian dollars)* | **2016** | 2015 | **2016** | 2015 |
| Settlement of commodity swaps | **3,566** | - | **(3,478)** | - |
| Mark-to-market of foreign exchange forward contracts | **-** | (1,747) | **(673)** | 1,881 |
| Hedge ineffectiveness | **(60)** | - | **(60)** | - |
| Settlement of foreign exchange forward contracts | **(427)** | 966 | **493** | 1,732 |
| Mark-to-market of open market positions | **(19)** | - | **42** | - |
| Financial transmission rights income and amortization | **(902)** | 56 | **(1,004)** | (55) |
| Realized foreign exchange (gain) loss | **(3)** | (73) | **(5)** | (73) |
| Unrealized foreign exchange revaluations | **(48)** | 19 | **170** | 15 |
| Net change in PPA fair value | **13,034** | - | **8,768** | - |
| Other (income) expense | **15,141** | (779) | **4,253** | 3,500 |

(a) Net change in PPA fair value

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| *For the period ended June 30 (thousands of Canadian dollars)* | **2016** | 2015 | **2016** | 2015 |
| Amortization of deferral | **(15,311)** | - | **(30,621)** | - |
| Mark-to-market of derivative | **20,803** | - | **26,018** | - |
| Settlement of realized profit | **7,542** | - | **13,371** | - |
| Net change in PPA fair value | **13,034** | - | **8,768** | - |

## 13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### 13.1 Fair Value

The estimated fair values of financial instruments as at June 30, 2016 and December 31, 2015 are based on relevant market prices and information available at the time. Fair value estimates are based on valuation techniques which are significantly affected by the assumptions used including the amount and timing of future cash flows and discount rates reflecting various degrees of risk. As such, the fair value estimates below are not necessarily indicative of the amounts that Energy Marketing might receive or incur in actual market transactions.

As a significant number of Energy Marketing's assets and liabilities do not meet the definition of a financial instrument, the fair value estimates below do not reflect the fair value of Energy Marketing as a whole.

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

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

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

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

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. For assets and liabilities that are recognized at fair value on a recurring basis, Energy Marketing determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no transfers between Level 1, 2 and 3 fair value measurement during the periods ended June 30, 2016 and December 31, 2015.

| | Level | Carrying Value | Fair Value | Carrying Value | Fair Value |
|---|---|---|---|---|---|
| *(thousands of Canadian dollars)* | | | **June 30, 2016** | | December 31, 2015 |
| Financial assets | | | | | |
| Derivative assets | **2** | **803** | **803** | 61 | 61 |
| Derivative assets | **3** | **23,164** | **23,164** | 61,577 | 61,577 |
| Financial liabilities | | | | | |
| Derivative liabilities | **2** | **5** | **5** | 4,051 | 4,051 |

The fair values of cash and cash equivalents (bank indebtedness), trade and other receivables and trade and other payables approximate their carrying values due to their short-term maturity.

The fair values of Level 2 financial instruments are determined using quoted prices in active markets, which in some cases are adjusted for factors specific to the asset or liability. Level 2 derivative instruments are valued based on observable commodity future curves, broker quotes or other publicly available data. Level 2 fair values of other risk management assets and liabilities and long-term debt are determined using observable inputs other than unadjusted quoted prices, such as interest rate yield curves and currency rates.

Level 3 financial instruments include the PPA derivative with Hydro and financial transmission rights.

The PPA derivative represents the annual budgeted energy sales net of recapture power purchases pursuant to the PPA with Hydro.

Financial transmission rights are contracts purchased from independent system operators that are used to mitigate risk associated with congestion in export markets.

The following table summarizes quantitative information about the valuation techniques and unobservable inputs used in the fair value measurement of Level 3 financial instruments as at June 30, 2016.

| *(thousands of Canadian dollars)* | Carrying Value | Valuation Techniques | Significant Unobservable Input(s) | Range |
|---|---|---|---|---|
| Derivative asset (Financial transmission rights) | **1,312** | Modelled pricing | Price, seasonality and market factors | 0-1% |
| Derivative asset (Power purchase derivative asset) | **21,852** | Modelled pricing | Volumes (MWh) | 37-44% of available generation |

Methodologies for calculating the fair values of financial transmission rights are determined by using underlying contractual data as well as observable and unobservable inputs. Fair value methodologies are reviewed by Management on a quarterly basis to assess the reasonability of the assumptions made and models are adjusted as necessary for significant expected changes in fair value due to changes in key inputs. As at June 30, 2016, the effect of using reasonably possible alternative assumptions regarding the unobservable implied volatilities may have resulted in +/- $13,000 change in the carrying value of the financial transmission rights.

The derivative asset arising under the PPA is designated as a Level III instrument as certain forward market prices and related volumes are not readily determinable to estimate a portion of the fair value of the derivative asset. Hence, fair value measurement of this instrument is based upon a combination of internal and external pricing and volume estimates. As at June 30, 2016, the effect of using reasonably possible alternative assumptions for volume inputs to valuation techniques may have resulted in -\$0.3 million to +\$1.2 million change in the carrying value of the power purchase derivative asset.

**13.2 Risk Management**

Energy Marketing is exposed to certain credit, liquidity and market price risks through its operating, financing and investing activities. Financial risk is managed in accordance with a Board approved policy, which outlines the objectives and strategies for the management of financial risk, including the use of derivative contracts. Permitted financial risk management strategies are aimed at minimizing the volatility of Energy Marketing's expected future cash flows.

<u>Liquidity Risk</u>
Energy Marketing is exposed to liquidity risk with respect to its contractual obligations and financial liabilities, including any derivative liabilities related to hedging activities. Liquidity risk management is aimed at ensuring cash is available to meet those obligations as they become due.

Short-term liquidity is mainly provided through cash and cash equivalents on hand, funds from operations, financial support from Energy Marketing's parent, Nalcor, and a \$20.0 million demand operating credit facility with its bank. This credit facility, which is unconditionally and irrevocably guaranteed by Nalcor, has \$7.2 million outstanding as of June 30, 2016, (December 31, 2015 - \$8.2 million). This credit facility is included in bank indebtedness on the Statement of Financial Position.

As at June 30, 2016, Nalcor, on behalf of Energy Marketing, has \$7.5 million in outstanding issued letters of credit to various independent system operators, transmission providers, and bilateral counterparties in relation to power purchase and sale contracts. These letters of credit have automatic renewal clauses, unless cancelled with appropriate notice by the issuer or beneficiary. On April 18, 2016 and June 14, 2016, Nalcor, on behalf of Energy Marketing, issued irrevocable letters of credit in favour of transmission providers in New England, in the amount of USD \$0.2 million and \$0.3 million USD, respectively.

<u>Market Risk</u>
In the course of carrying out its operating, financing and investing activities, Energy Marketing is exposed to possible market price movements that could impact expected future cash flow and the carrying value of certain financial assets and liabilities. Market price movements to which Energy Marketing has significant exposure include those relating to prevailing interest rates, foreign exchange rates, most notably USD/CAD, and current commodity prices, most notably the spot prices for electricity. These exposures are addressed as part of the Financial Risk Management Strategy.

| | Commodity and Forward Contracts | Other Derivatives | | Total | |
|---|---|---|---|---|---|
| *(thousands of Canadian dollars)* | **Level II** | **Level II** | **Level III** | **Level II** | **Level III** |
| **Balance at January 1, 2016** | **(4,051)** | **61** | **61,577** | **(3,990)** | **61,577** |
| **Purchases** | **-** | **-** | **1,562** | **-** | **1,562** |
| | **(4,051)** | **61** | **63,139** | **(3,990)** | **63,139** |
| **Changes to profit (loss)** | | | | | |
| **Amortization** | **-** | **-** | **(586)** | **-** | **(586)** |
| **Mark-to-market** | **5,531** | **(42)** | **(26,018)** | **5,489** | **(26,018)** |
| **Hedge ineffectiveness** | **60** | **-** | **-** | **60** | **-** |
| **Settlements** | **(2,805)** | **-** | **(13,371)** | **(2,805)** | **(13,371)** |
| **Total** | **2,786** | **(42)** | **(39,975)** | **2,744** | **(39,975)** |
| **Changes in other comprehensive income** | | | | | |
| **Mark-to-market** | **2,224** | **-** | **-** | **2,224** | **-** |
| **Settlements realized in profit (loss)** | **(180)** | **-** | **-** | **(180)** | **-** |
| **Total** | **2,044** | **-** | **-** | **2,044** | **-** |
| **Balance at June 30, 2016** | **779** | **19** | **23,164** | **798** | **23,164** |
| | | | | | |
| Balance at January 1, 2015 | (980) | - | 68 | (980) | 68 |
| Purchases | - | - | 854 | - | 854 |
| | (980) | - | 922 | (980) | 922 |
| Changes to profit (loss) | | | | | |
| Amortization | - | - | (278) | - | (278) |
| Mark-to-market | (150) | - | - | (150) | - |
| Settlements | (1,732) | - | - | (1,732) | - |
| Total | (1,882) | - | (278) | (1,882) | (278) |
| Balance at June 30, 2015 | (2,862) | - | 644 | (2,862) | 644 |

*Foreign Currency and Commodity Exposure*

Energy Marketing's primary exposure to both foreign exchange and commodity price risk arises from its USD denominated electricity sales. Exposures to USD denominated electricity sales are addressed in accordance with the Board-approved Financial Risk Management Policy, and mitigation tactics include the use of forward rate agreements and fixed price commodity swaps.

As at June 30, 2016, Energy Marketing has six remaining foreign exchange forward contracts, with a notional value of $17.5 million USD, and an average rate of $1.34 CAD per USD. During 2016, $0.2 million in gains have been included in other (income) expense related to foreign exchange forward contracts. As at June 30, 2016, $2.0 million in unrealized gains were recognized in other comprehensive income related to the remaining contracts.

As at June 30, 2016, Energy Marketing had no remaining fixed price commodity price swaps, as they were all settled during the quarter. During 2016, $3.5 million in gains have been included in other (income) expense.

During 2015, Energy Marketing purchased a series of annual, semi-annual, and monthly financial transmission rights with notional values of $847,800 USD and $78,900 CAD, respectively to mitigate risk on congestion during peak transmission hours. During 2016, additional rights with notional values of $1.2 million USD were purchased to mitigate risk on congestion for the remainder of 2016 and a portion of 2017. As the rights have not been designated as hedging instruments, changes in fair value have been recorded in other (income) expense.

## 14. RELATED PARTY TRANSACTIONS

Energy Marketing enters into various transactions with its shareholder and other affiliates. These transactions occur within the normal course of operations and are measured at the exchange amount, which is the amount of consideration agreed to by the related parties. Related parties with which Energy Marketing transacts are as follows:

| Related Party | Relationship |
|---|---|
| Nalcor | 100% shareholder of Energy Marketing |
| Hydro | 100% owned subsidiary of Nalcor |

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

## 15. COMMITMENTS AND CONTINGENCIES

(a) Energy Marketing is subject to legal proceedings in the normal course of business. Although the outcome of such actions cannot be predicted with certainty, Management currently believes Energy Marketing's exposure to such claims and litigation, to the extent not covered by insurance policies or otherwise provided for, is not expected to materially affect the financial position of Energy Marketing.

(b) Energy Marketing entered into a one-year agreement with a transmission provider for 5 MW of firm transmission rights, effective July 1, 2016. Total committed payments for the duration of the contract are $272,000 USD.

## 16. SUPPLEMENTARY CASH FLOW INFORMATION

| | **Three months ended** | | **Six months ended** | |
|---|---|---|---|---|
| *For the period ended June 30 (thousands of Canadian dollars)* | **2016** | 2015 | **2016** | 2015 |
| Trade and other receivables | **(731)** | (1,503) | **(1,415)** | (1,534) |
| Prepayments | **135** | 102 | **212** | 202 |
| Trade and other payables | **(2,368)** | 11,822 | **(1,805)** | 13,806 |
| Changes in non-cash working capital balances | **(2,964)** | 10,421 | **(3,008)** | 12,474 |

## 17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the basis of presentation adopted during the current reporting period or restated for prior period adjustments. The changes have been summarized as follows:

| *(thousands of Canadian dollars)* | | Previously reported | Foreign exchange contract losses adjustment | **Restated** |
|---|---|---|---|---|
| Net finance (income) expense | | 4 | 61 | **65** |
| Other (income) expense | | 2,302 | 1,198 | **3,500** |
| Total comprehensive loss | (a) | (3,537) | (1,259) | **(4,796)** |

(a) For the period ended June 30, 2015, $1,198,400 in foreign exchange forward contracts relating to Energy Marketing were incorrectly settled in Hydro. This was subsequently adjusted through intercompany and presented correctly in Energy Marketing's annual audited financial statements at December 31, 2015.