

**NALCOR ENERGY MARKETING CORPORATION**  
**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**September 30, 2015**  
**(Unaudited)**

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

<i>As at (thousands of Canadian dollars)</i>	Notes	<b>September 30</b>	December 31
		<b>2015</b>	2014
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents		<b>2,083</b>	25
Trade and other receivables		<b>2,577</b>	16
Prepayments		<b>282</b>	345
Derivative assets		<b>406</b>	68
<b>Total current assets</b>		<b>5,348</b>	454
Property, plant and equipment	3	<b>11</b>	-
<b>Total assets</b>		<b>5,359</b>	454
<b>LIABILITIES AND SHAREHOLDER'S DEFICIENCY</b>			
Current liabilities			
Trade and other payables		<b>10,493</b>	1,174
Derivative liabilities		<b>2,380</b>	980
<b>Total liabilities</b>		<b>12,873</b>	2,154
Shareholder's deficiency			
Share capital		<b>1</b>	1
Deficit		<b>(7,515)</b>	(1,701)
<b>Total shareholder's deficiency</b>		<b>(7,514)</b>	(1,700)
<b>Total liabilities and shareholder's deficiency</b>		<b>5,359</b>	454

*See accompanying notes*

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

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Nine months ended	
		2015	2014	2015	2014
Revenue	9	<b>369</b>	-	<b>697</b>	-
Operating costs	5	<b>1,031</b>	110	<b>2,590</b>	110
Net finance (income) expense	6	<b>11</b>	-	<b>15</b>	-
Other (income) expense	7	<b>1,604</b>	-	<b>3,906</b>	-
Loss for the period		<b>(2,277)</b>	(110)	<b>(5,814)</b>	(110)
Total comprehensive loss for the period		<b>(2,277)</b>	(110)	<b>(5,814)</b>	(110)

*See accompanying notes*

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

<i>(thousands of Canadian dollars)</i>	Share Capital	Shareholder's Deficiency	Total
<b>Balance at January 1, 2015</b>	<b>1</b>	<b>(1,701)</b>	<b>(1,700)</b>
<b>Loss for the period</b>	<b>-</b>	<b>(5,814)</b>	<b>(5,814)</b>
<b>Total comprehensive loss for the period</b>	<b>-</b>	<b>(5,814)</b>	<b>(5,814)</b>
<b>Balance at September 30, 2015</b>	<b>1</b>	<b>(7,515)</b>	<b>(7,514)</b>
Loss for the period	-	(110)	(110)
Total comprehensive loss for the period	-	(110)	(110)
Issuance of share capital	1	-	1
Balance at September 30, 2014	1	(110)	(109)

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

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Notes	<b>Three months ended</b>		<b>Nine months ended</b>	
		<b>2015</b>	2014	<b>2015</b>	2014
Cash provided from (used in)					
Operating activities					
Loss for the period		<b>(2,277)</b>	(110)	<b>(5,814)</b>	(110)
Adjusted for items not involving a cash flow:					
Unrealized (gain) loss on derivative instruments		<b>(165)</b>	-	<b>1,995</b>	-
		<b>(2,442)</b>	(110)	<b>(3,819)</b>	(110)
Changes in non-cash working capital balances	10	<b>(4,394)</b>	109	<b>6,821</b>	109
Net cash (used in) provided from operating activities		<b>(6,836)</b>	(1)	<b>3,002</b>	(1)
Investing activities					
Additions to property, plant and equipment	3	<b>(8)</b>	-	<b>(11)</b>	-
Additions to transmission congestion contracts		<b>(79)</b>	-	<b>(933)</b>	-
Net cash used in investing activities		<b>(87)</b>	-	<b>(944)</b>	-
Issuance of share capital		-	1	-	1
Net cash provided from financing activities		-	1	-	1
Net (decrease) increase in cash and cash equivalents		<b>(6,923)</b>	-	<b>2,058</b>	-
Cash and cash equivalents, beginning of period		<b>9,006</b>	-	<b>25</b>	-
Cash and cash equivalents, end of period		<b>2,083</b>	-	<b>2,083</b>	-

Supplementary cash flow information (Note 10)

*See accompanying notes*

**NALCOR ENERGY MARKETING CORPORATION**  
**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)**

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**1. DESCRIPTION OF BUSINESS**

Nalcor Energy Marketing Corporation (Energy Marketing) was formed under the laws of the Province 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 in St. John's, Newfoundland and Labrador.

**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, 2014.

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 and all values rounded to the nearest thousand, except when otherwise noted.

**3. PROPERTY, PLANT AND EQUIPMENT**

<i>(thousands of Canadian dollars)</i>	Construction in Progress	Total
Cost		
Balance at January 1, 2015	-	-
<b>Additions</b>	<b>11</b>	<b>11</b>
<b>Balance at September 30, 2015</b>	<b>11</b>	<b>11</b>

**4. EMPLOYEE FUTURE BENEFITS**

**4.1 Pension Plan**

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions of \$122,000 (2014 - \$4,000) are expensed as incurred.

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**5. OPERATING COSTS**

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>2015</b>	2014	<b>2015</b>	2014
Salaries and benefits	<b>572</b>	108	<b>1,605</b>	108
Professional services	<b>272</b>	-	<b>596</b>	-
Maintenance and materials	<b>26</b>	-	<b>35</b>	-
Training	<b>7</b>	-	<b>21</b>	-
Travel and transportation	<b>44</b>	-	<b>67</b>	-
Other operating costs	<b>110</b>	2	<b>266</b>	2
	<b>1,031</b>	110	<b>2,590</b>	110

**6. NET FINANCE (INCOME) EXPENSE**

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>2015</b>	2014	<b>2015</b>	2014
Bank fees	<b>11</b>	-	<b>15</b>	-
Net finance (income) expense	<b>11</b>	-	<b>15</b>	-

**7. OTHER (INCOME) EXPENSE**

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>2015</b>	2014	<b>2015</b>	2014
Mark-to-market of foreign exchange forward contracts	<b>(482)</b>	-	<b>1,400</b>	-
Foreign exchange loss	<b>2,172</b>	-	<b>2,647</b>	-
Change in fair value of transmission congestion contracts	<b>(86)</b>	-	<b>(141)</b>	-
Other (income) expense	<b>1,604</b>	-	<b>3,906</b>	-

**8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

**8.1 Fair Value**

The estimated fair values of financial instruments as at September 30, 2015 and December 31, 2014 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).

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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 period ended September 30, 2015 and December 31, 2014.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		September 30, 2015		December 31, 2014	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Cash and cash equivalents	1	2,083	2,083	25	25
Trade and other receivables	1	2,577	2,577	16	16
Derivative assets	3	406	406	68	68
Financial liabilities					
Trade and other payables	1	10,493	10,493	1,174	1,174
Derivative liabilities	2	2,380	2,380	980	980

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

## 8.2 Risk Management

### Liquidity Risk

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, had \$1.5 million outstanding as of September 30, 2015 (2014 - \$nil). This credit facility is included in cash and cash equivalents on the statement of financial position.

At September 30, 2015, Nalcor, on behalf of Energy Marketing, has \$6.8 million in outstanding issued letters of credit to various independent system operators and transmission providers in relation to power purchase and sale contracts. These letters of credit expire throughout 2015 and 2016.

### Market Risk

In December 2014, Energy Marketing entered into a series of twelve monthly foreign exchange forward contracts with a notional value of \$41.8 million USD to hedge foreign exchange risk on a portion of planned USD electricity sales to the end of 2015. As the contracts have not been designated as hedged instruments, changes in fair value have been recorded in other (income) expense.



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In March and April 2015, Energy Marketing entered into series of annual and semi-annual transmission rights contracts with notional values totaling \$674,700 USD to hedge congestion fees on a portion of planned electricity sales during peak transmission times. As the contracts have not been designated as hedged instruments, changes in fair value have been recorded in other (income) expense.

In September 2015, Energy Marketing entered into additional annual and semi-annual transmission rights contracts, effective November 1, 2015, with notional values totaling \$173,100 USD to hedge congestion fees on a portion of planned electricity sales during peak transmission times. As the contracts have not been designated as hedged instruments, changes in fair value have been recorded in other (income) expense.

In September 2015, Energy Marketing entered into two one-month transmission rights contracts, effective October 1, 2015, with notional values totaling \$78,900 CAD to hedge congestion fees on a portion of planned electricity sales during peak transmission times. As the contracts have not been designated as hedged instruments, changes in fair value have been recorded in other (income) expense.

**9. RELATED PARTY TRANSACTIONS**

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

Related Party	Relationship
Nalcor	100% shareholder of Energy Marketing
Newfoundland and Labrador Hydro (Hydro)	100% owned subsidiary of Nalcor

- (a) For the period ended September 30, 2015, Energy Marketing was charged \$195,000 (2014 - \$nil) by Hydro for management and administrative services received.
- (b) For the period ended September 30, 2015, Energy Marketing earned revenue of \$697,000 (2014 - \$nil) from Hydro for advisory services provided related to export marketing services.
- (c) As at September 30, 2015, Energy Marketing has a receivable from Nalcor of \$704,000 related to intercompany transactions. As at December 31, 2014, there was a loan payable to Nalcor of \$1,069,000 which was related to a temporary funding arrangement. The loan was fully repaid during 2015.
- (d) As at September 30, 2015, Energy Marketing has a payable to Hydro of \$9,897,000 primarily related to export energy revenues.

**10. SUPPLEMENTARY CASH FLOW INFORMATION**

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2015	2014	2015	2014
Trade and other receivables	(1,027)	-	(2,561)	-
Prepayments	(139)	-	63	-
Trade and other payables	(3,228)	109	9,319	109
Changes in non-cash working capital balances	(4,394)	109	6,821	109
Interest paid	11	-	15	-