NALCOR ENERGY MARKETING CORPORATION
FINANCIAL STATEMENTS
December 31, 2016

Deloitte.

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Independent Auditor’s Report

To the Shareholder of Nalcor Energy Marketing Corporation

We have audited the accompanying financial statements of Nalcor Energy Marketing Corporation, which comprise the statement of financial position as at December 31, 2016, and the statements of profit (loss) and comprehensive income (loss), changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Nalcor Energy Marketing Corporation as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants
March 7, 2017

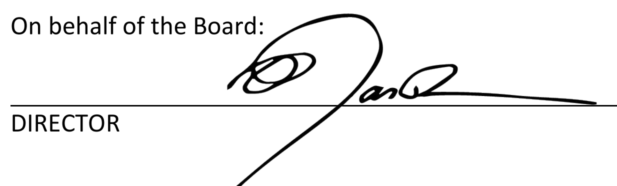
NALCOR ENERGY MARKETING CORPORATION
STATEMENT OF FINANCIAL POSITION

As at December 31 (thousands of Canadian dollars)	Notes	**2016**	2015
ASSETS			
Current assets			
Cash and cash equivalents	5	**5,797**	-
Trade and other receivables	6	**1,872**	1,097
Prepayments		**633**	454
Derivative assets	18	**51,893**	61,638
Total current assets		**60,195**	63,189
Property, plant and equipment	7	**187**	174
Intangible assets	8	**890**	1,121
Total non-current assets		**1,077**	1,295
Total assets		**61,272**	64,484
LIABILITIES AND EQUITY (DEFICIENCY)			
Current liabilities			
Bank indebtedness	5	**-**	4,791
Trade and other payables	9	**2,485**	5,159
Derivative liabilities	18	**313**	4,051
Deferred liability	10	**51,148**	61,241
Total current liabilities		**53,946**	75,242
Employee future benefits	11	**669**	607
Total non-current liabilities		**669**	607
Total liabilities		**54,615**	75,849
Shareholder’s equity (deficiency)			
Share capital	13	**1**	1
Reserves	12	**(531)**	(1,444)
Retained earnings (deficit)		**7,187**	(9,922)
Total equity (deficiency)		**6,657**	(11,365)
Total liabilities and equity (deficiency)		**61,272**	64,484

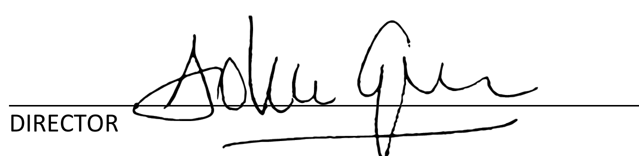
Commitments and contingencies (Note 20)

See accompanying notes

On behalf of the Board:



DIRECTOR



DIRECTOR

NALCOR ENERGY MARKETING CORPORATION
STATEMENT OF PROFIT (LOSS) AND COMPREHENSIVE INCOME (LOSS)

For the year ended December 31 (thousands of Canadian dollars)	Notes	2016	2015
			(Note 23)
Energy sales		**43,458**	8,971
Other revenue		**-**	697
Revenue		**43,458**	9,668
Transmission and market fees	14	**22,051**	5,480
Operating costs	15	**5,235**	5,536
Power purchased		**4,209**	1,005
Depreciation and amortization	7,8	**265**	68
Net finance (income) expense	16	**188**	149
Other (income) expense	17	**(5,599)**	5,651
Profit (loss) for the year		**17,109**	(8,221)
Other comprehensive income (loss)			
Total items that may or have been reclassified to profit or loss:			
Net fair value gains (losses) on cash flow hedges	12	**1,614**	(1,325)
Reclassification adjustments related to:			
Cash flow hedges recognized in profit or loss	12	**(599)**	-
Total items that will not be reclassified to profit or loss:			
Actuarial loss on employee future benefits	12	**(102)**	(119)
Other comprehensive income (loss) for the year		**913**	(1,444)
Total comprehensive income (loss) for the year		**18,022**	(9,665)

See accompanying notes

NALCOR ENERGY MARKETING CORPORATION
STATEMENT OF CHANGES IN EQUITY

(thousands of Canadian dollars)	Notes	Share Capital	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings (Deficit)	Total
Balance at January 1, 2016		**1**	**(1,325)**	**(119)**	**(9,922)**	**(11,365)**
Profit for the year		**-**	**-**	**-**	**17,109**	**17,109**
Other comprehensive income						
Net change in fair value of cash flow hedge	**12**	**-**	**1,614**	**-**	**-**	**1,614**
Net change in fair value of financial instruments reclassified to profit or loss	**12**	**-**	**(599)**	**-**	**-**	**(599)**
Actuarial loss on employee future benefits	**12**	**-**	**-**	**(102)**	**-**	**(102)**
Total comprehensive income for the year		**-**	**1,015**	**(102)**	**17,109**	**18,022**
Balance at December 31, 2016		**1**	**(310)**	**(221)**	**7,187**	**6,657**
Balance at January 1, 2015		1	-	-	(1,701)	(1,700)
Loss for the year		-	-	-	(8,221)	(8,221)
Net change in fair value of cash flow hedge	12	-	(1,325)	-	-	(1,325)
Actuarial loss on employee future benefits	12	-	-	(119)	-	(119)
Total comprehensive loss for the year		-	(1,325)	(119)	(8,221)	(9,665)
Balance at December 31, 2015		1	(1,325)	(119)	(9,922)	(11,365)

See accompanying notes

NALCOR ENERGY MARKETING CORPORATION
STATEMENT OF CASH FLOWS

For the year ended December 31 (thousands of Canadian dollars)	Notes	**2016**	2015
Cash provided from (used in)			
Operating activities			
Profit (loss) for the year		**17,109**	(8,221)
Adjusted for items not involving a cash flow:			
Depreciation and amortization	7,8	**265**	68
Loss on disposal of property, plant and equipment	7	**3**	-
Employee benefits	11	**(40)**	488
Unrealized (gain) loss on derivatives		**(1,126)**	2,581
		16,211	(5,084)
Changes in non-cash working capital balances	22	**(3,633)**	2,795
Net cash provided from (used in) operating activities		**12,578**	(2,289)
Investing activities			
Additions to property, plant and equipment	7	**(43)**	(183)
Additions to intangible assets	8	**(7)**	(1,180)
Additions to financial transmission rights	18	**(1,945)**	(1,164)
Change in non-cash working capital balances	22	**5**	-
Net cash used in investing activities		**(1,990)**	(2,527)
Net increase in cash and cash equivalents (bank indebtedness)		**10,588**	(4,816)
(Bank indebtedness) cash and cash equivalents, beginning of year		**(4,791)**	25
Cash and cash equivalents (bank indebtedness), end of year	5	**5,797**	(4,791)
Interest received		**3**	-
Interest paid		**191**	149

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

2.1 Statement of Compliance and Basis of Measurement

These annual audited financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). Energy Marketing has adopted accounting policies which are based on the IFRS applicable as at December 31, 2016 which includes individual IFRS, International Accounting Standards (IAS), and interpretations made by the IFRS Interpretations Committee and the Standing Interpretations Committee.

These annual audited financial statements have been prepared on a historical cost basis, except for financial instruments at fair value through profit or loss (FVTPL) which have been measured at fair value. The annual audited financial statements are presented in Canadian Dollars and all values rounded to the nearest thousand, except when otherwise noted. These annual audited financial statements were approved by Energy Marketing's Board of Directors (the Board) on February 27, 2017.

2.2 Cash and Cash Equivalents (Bank Indebtedness)

Cash and cash equivalents (bank indebtedness) consists of amounts on deposit with a Schedule 1 Canadian Chartered bank, funds drawn on Energy Marketing's operating facility, as well as, highly liquid investments with maturities of three months or less. Investments with maturities greater than three months and less than twelve months are classified as short-term investments. As at December 31, 2016, there were no short-term investments. Cash and cash equivalents and bank indebtedness are recorded at cost which approximates fair value while short-term investments are measured at fair value.

2.3 Trade and Other Receivables

Trade and other receivables are classified as loans and receivables and are measured at amortized cost using the effective interest method.

2.4 Property, Plant and Equipment

Items of property, plant and equipment are recognized using the cost model and thus are recorded at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes materials, labour, contracted services, and professional fees. Costs capitalized with the related asset include all those costs directly attributable to bringing the asset into operation. When significant parts of property, plant and equipment are required to be replaced at intervals, Energy Marketing recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repairs and maintenance costs are recognized in profit or loss as incurred. Property, plant and equipment is not revalued for financial reporting purposes. Depreciation of these assets commences when the assets are ready for their intended use.

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

Computer hardware and furniture	5 to 20 years

2.5 Intangible Assets

Intangible assets that are expected to generate future economic benefit and are measurable, including computer software costs and costs of technical services, are capitalized as intangible assets in accordance with IAS 38.

Intangible assets with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. The estimated useful life and amortization method are reviewed at the end of each year, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

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

Computer software	5 years

2.6 Impairment of Non-Financial Assets

At the end of each reporting period, Energy Marketing reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Where it is not possible to estimate the recoverable amount of an individual asset, Energy Marketing estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from non-financial assets.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the Statement of Profit (Loss) and Comprehensive Income (Loss).

2.7 Employee Future Benefits

(i) Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. Contributions by Energy Marketing to this plan are recognized as an expense when employees have rendered service entitling them to the contributions. Assets and liabilities associated with this Plan are held with the Province.

(ii) Other Benefits

Energy Marketing provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a severance payment upon retirement.

The cost of providing these benefits is determined using the projected unit credit method, with actuarial valuations being completed on an annual basis, based on service and Management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

Actuarial gains and losses on Energy Marketing's defined benefit obligation are recognized in reserves in the period in which they occur. Past service costs are recognized in operating costs as incurred.

The retirement benefit obligation recognized in the Statement of Financial Position represents the present value of the defined benefit obligation.

2.8 Provisions

A provision is a liability of uncertain timing or amount. A provision is recognized if Energy Marketing has a present legal obligation or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. The provision is measured at the present value of the best estimate of the expenditures expected to be required to settle the obligation using a discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. Provisions are re-measured at each Statement of Financial Position date using the current discount rate.

2.9 Revenue Recognition

Energy Sales

Revenue from the sale of energy is recognized when Energy Marketing has transferred the significant risks and rewards of ownership to the buyer; recovery of the consideration is probable; and the amount of revenue can be reliably measured. Energy sales consist solely of export and counterparty sales at market or negotiated rates in both US and Canadian currencies.

Other Revenue

Revenue associated with performing advisory and market trading services is recognized when the revenue can be reliably measured, collection is reasonably assured and performance is complete.

2.10 Net Finance (Income) Expense

For all financial instruments measured at amortized cost and interest bearing financial assets classified as available-for-sale (AFS), interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

2.11 Foreign Currencies

Transactions in currencies other than Energy Marketing's functional currency (foreign currencies) are recognized using the exchange rate in effect at the date of transaction, approximated by the prior month end close rate. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates of exchange in effect at the period end date. Foreign exchange gains and losses are included in the Statement of Profit (Loss) and Comprehensive Income (Loss) as other (income) expense.

2.12 Income Taxes

Energy Marketing is exempt from paying income taxes under section 149(1) (d.2) of the Income Tax Act.

2.13 Financial Instruments

Financial assets and financial liabilities are recognized in the Statement of Financial Position when Energy Marketing becomes a party to the contractual provisions of the instrument and are initially measured at fair value. Subsequent measurement is based on classification. Financial instruments are classified into the following specified categories: financial assets at FVTPL, AFS financial assets, loans and receivables, held-to-maturity investments, financial liabilities at FVTPL, financial instruments used for hedging and other financial liabilities. The classification depends on the nature and purpose of the financial instruments and is determined at the time of initial recognition.

Classification of Financial Instruments

Energy Marketing has classified each of its financial instruments into the following categories: financial assets at FVTPL, loans and receivables, financial liabilities at FVTPL, financial instruments used for hedging and other financial liabilities.

Financial Instrument	Category
Cash and cash equivalents	Loans and receivables
Trade and other receivables	Loans and receivables
Derivative instruments	At FVTPL and financial instruments used for hedging
Trade and other payables	Other financial liabilities
Bank indebtedness	Other financial liabilities

(i) Effective Interest Method

The effective interest method is a method of calculating the amortized cost of a financial instrument and allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income or expense is recognized on an effective interest basis for financial instruments other than those financial assets and liabilities classified as at FVTPL.

Financial Assets

(ii) Financial Assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that Energy Marketing manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with Energy Marketing's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized in other (income) expense. The net gain or loss incorporates any dividends or interest earned.

(iii) Loans and receivables

Trade receivables, loans and other receivables with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Financial Liabilities and Equity Instruments

(iv) Financial Liabilities at FVTPL

A financial liability may be classified as at FVTPL if the contracted liability contains one or more embedded derivatives, and if the embedded derivative significantly modified the cash flows or if the embedded derivative is not closely related to the host liability. Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising from re-measurement recognized in profit or loss.

(v) Other Financial Liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

(vi) Derivative Instruments and Financial Instruments Used for Hedging

Derivative instruments are utilized by Energy Marketing to manage risk. Energy Marketing's policy is not to utilize derivative instruments for speculative purposes. Derivatives are initially measured at fair value at the date the derivative contracts are entered into and are subsequently measured at their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging relationship.

Energy Marketing may choose to designate derivative instruments as hedges and apply hedge accounting if there is a high degree of correlation between the movements in the derivative instruments and the hedged items. Energy Marketing formally documents all hedges and the related risk management objectives at the inception of the hedge. Derivative instruments that have been designated and qualify for hedge accounting are classified as either cash flow or fair value hedges.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Cash Flow Hedges

The effective portion of the gain or loss on the hedging instrument is recognized directly in other comprehensive income, while any ineffective portion is recognized immediately in the Statement of Profit (Loss) and Comprehensive Income (Loss) for the year.

Amounts recognized as other comprehensive income are transferred to profit or loss for the period when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs.

2.14 Derecognition of Financial Instruments

Energy Marketing derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If Energy Marketing neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, its retained interest in the asset and any associated liability for amounts it may have to pay is recognized. If Energy Marketing retains substantially all the risks and rewards of ownership of a transferred financial asset, it continues to recognize the financial asset and also recognizes the collateralized borrowing for the proceeds received. Energy Marketing derecognizes financial liabilities when, and only when, its obligations are discharged, cancelled or they expire.

2.15 Impairment of Financial Assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- the borrower, more probable than not, will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include Energy Marketing's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the annual audited financial statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses including, but not limited to, allocations of costs among entities. Actual results may materially differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is reviewed if the revision affects only that period or future periods.

3.1 Use of Judgments

(i) Property, plant and equipment

Energy Marketing's accounting policy related to property, plant and equipment is described in Note 2.4. In applying this policy, judgment is used in determining whether certain costs are additions to the carrying amount of the property, plant and equipment as opposed to repairs and maintenance. If an asset has been developed, judgment is required to identify the point at which the asset is capable of being used as intended and to identify the directly attributable borrowing costs to be included in the carrying value of the development asset. Judgment is used in determining the appropriate componentization structure for Energy Marketing's property, plant and equipment.

(ii) Functional Currency
Functional currency was determined by evaluating the primary economic environment in which Energy Marketing operates. As Energy Marketing enters into transactions in multiple currencies, judgment is used in determining the functional currency. Management considered factors regarding currency of sales, costs incurred and operating and financing activities, and determined the functional currency to be Canadian Dollars.

3.2 Use of Estimates

(i) Property, plant and equipment
Amounts recorded for depreciation are based on the useful lives of Energy Marketing's assets. The useful lives of property, plant and equipment are determined by independent specialists and reviewed annually by Energy Marketing. These useful lives are Management's best estimate of the service lives of these assets. Changes to these lives could materially affect the amount of depreciation recorded.

(ii) Intangible assets
Amounts recorded for amortization are based on the useful lives of Energy Marketing's assets. These useful lives are Management's best estimate of the service lives of these assets. Changes to these lives could materially affect the amount of amortization recorded.

(iii) Employee Benefits
Energy Marketing provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a severance payment upon retirement. The expected cost of providing these other employee benefits is accounted for on an accrual basis, and has been actuarially determined using the projected unit credit method prorated on service, and Management's best estimate of salary escalation, retirement ages of employees, and expected health care costs.

3.3 Use of Assumptions

(i) Derivative Assets and Deferred Liabilities
Fair value assumptions for financial transmission rights have been based on internal valuation techniques and models that extrapolate observable external market inputs, such as commodity prices, and include significant judgment regarding the expected impact of seasonality and locational adjustments.

For power purchase agreements that are accounted for as derivative instruments, where Energy Marketing determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the derivative transactions are initially measured at fair value and the expected difference is deferred. Subsequently, the deferred difference is recognized in profit or loss on an appropriate basis over the life of the related derivative instrument but not later than when the valuation is wholly supported by observable market data or the transaction has occurred.

Energy Marketing has elected to defer the difference between the fair value of the power purchase derivative asset upon initial recognition and the transaction price of the power purchase derivative asset, and to amortize the deferred liability on a straight-line basis over its effective term (Note 10). These methods, when compared with alternatives, were determined to more accurately reflect the nature and substance of the transactions.

In September 2016, the terms of the PPA were amended to require a 60 day termination notice by either party. This replaced the previous termination clause of 90 days prior the end of the operating year. Management's assumption is that the term of the PPA at December 31, 2016, will continue for at least the next 12 months.

4. FUTURE CHANGES IN ACCOUNTING POLICIES

Amendments to IFRS 11 – Accounting for Acquisition of Interests in Joint Operations, IAS 1 – Disclosure Initiatives and IAS 16 and 38 – Clarification of Acceptable Methods of Depreciation and Amortization that became effective for annual periods beginning on or after January 1, 2016, did not have a material impact on Energy Marketing's annual audited financial statements.

Energy Marketing has not applied the following new and revised IFRS that have been issued but are not yet effective:

Amendments to IAS 7 – Disclosure Initiative[1]
IFRS 9 – Financial Instruments[2]
IFRS 15 – Revenue from Contracts with Customers[2]
IFRS 16 – Leases[3]

[1]Effective for annual periods beginning on or after January 1, 2017, with earlier application permitted.
[2]Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.
[3]Effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

4.1 Amendments to IAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific format to disclose financing activities; however, an entity may fulfil the disclosure objective by providing a reconciliation between the opening and closing balances in the Statement of Financial Position for liabilities arising from financing activities.

The amendments apply prospectively. Entities are not required to present comparative information for earlier periods.

Management does not anticipate that the application of these amendments to IAS 7 will have a material impact on Energy Marketing's annual audited financial statement disclosures.

4.2 IFRS 9 Financial Instruments

In July 2014, the IASB finalized the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which contains the requirements for a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting. IFRS 9 (as revised in 2014) will supersede IAS 39 Financial Instruments: Recognition and Measurement upon its effective date.

Phase 1: Classification and measurement of financial assets and financial liabilities

With respect to the classification and measurement, the number of categories of financial assets under IFRS 9 has been reduced; all recognized financial assets that are currently within the scope of IAS 39 will be subsequently measurement at either amortized cost or fair value under IFRS 9.

IFRS 9 also contains requirements for the classification and measurement of financial liabilities and derecognition requirements. One major change from IAS 39 relates to the presentation of changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of that liability. Under IFRS 9, such changes are presented in other comprehensive income, unless the presentation of the effect of the change in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

Phase 2: Impairment of financial assets

The impairment model under IFRS 9 reflects expected credit losses, as opposed to incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

Phase 3: Hedge accounting
The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required. Far more disclosure requirements about an entity's risk management activities have been introduced.

Transitional provisions
IFRS 9 (as revised in 2014) is effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. Management has elected to adopt the standard as of the effective date, and although the classifications of existing financial instruments and related disclosures will change, Management does not anticipate material adjustments to Energy Marketing's annual audited financial statements upon transition.

4.3 IFRS 15 Revenue from Contracts with Customers
IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It will supersede the following revenue standards and interpretations upon its effective date:

- IAS 18 Revenue;
- IAS 11 Construction Contracts;
- IFRIC 13 Customer Loyalty Programs;
- IFRIC 15 Agreements for the Construction of Real Estate;
- IFRIC 18 Transfers of Assets from Customers; and
- SIC 31 Revenue-Barter Transactions Involving Advertising Services.

As suggested by the title of the new revenue standard, IFRS 15 will only cover revenue arising from contracts with customers. Under IFRS 15, a customer of an entity is a party that has contracted with the entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. Unlike the scope of IAS 18, the recognition and measurement of interest income and dividend income from debt and equity investments are no longer within the scope of IFRS 15. Instead, they are within the scope of IAS 39 (or IFRS 9 if it is early adopted).

As mentioned above, the new standard has a single model to deal with revenue from contracts with customers. Its core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Specifically, the Standard introduces a five-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Extensive disclosures are also required by the new standard.

Management does not anticipate that the application of IFRS 15 in the future will have a material impact on the amounts reported and disclosures made in Energy Marketing's annual audited financial statements.

4.4 IFRS 16 Leases
IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It will supersede the following lease standard and interpretations upon its effective date:

- IAS 17 Leases;
- IFRIC 4 Determining Whether an Arrangement contains a Lease;

- SIC-15 Operating Leases – Incentives; and
- SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. The standard introduces significant changes to lessee accounting: it removes the distinction between operating and finance leases under IAS 17 and requires a lessee to recognize a right-of-use asset and a lease liability at lease commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the IFRS 16 lessor accounting requirements remain largely unchanged from IAS 17, which continue to require a lessor to classify a lease as either an operating lease or a finance lease.

A lessee can apply IFRS 16 either by a full retrospective approach or a modified retrospective approach. If the latter approach is selected, an entity is not required to restate the comparative information and the cumulative effect of initially applying IFRS 16 must be presented as an adjustment to opening retained earnings. Management anticipates that the application of IFRS 16 in the future may have a material impact on the amounts reported and disclosures made in Energy Marketing's annual audited financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until Management performs a detailed review.

5. CASH AND CASH EQUIVALENTS (BANK INDEBTEDNESS)

Cash and cash equivalents (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 December 31 (thousands of Canadian dollars)	**2016**	2015
Cash	**5,797**	3,372
Bank indebtedness	**-**	(8,163)
	5,797	(4,791)

6. TRADE AND OTHER RECEIVABLES

As at December 31 (thousands of Canadian dollars)	**2016**	2015
Trade receivables	**1,869**	861
Due from related parties	**3**	236
	1,872	1,097

As at December 31 (thousands of Canadian dollars)	**2016**	2015
0-60 days	**1,843**	1,097
60+ days	**29**	-
	1,872	1,097

As at December 31, 2016, trade and other receivables included balances of $1.8 million (2015 - $0.8 million) denominated in USD.

7. 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	**43**
Disposals	**(3)**
Balance at December 31, 2016	**223**
Depreciation	
Balance at January 1, 2015	-
Depreciation	9
Balance at December 31, 2015	9
Depreciation	**27**
Balance at December 31, 2016	**36**
Carrying value	
Balance at January 1, 2015	-
Balance at December 31, 2015	174
Balance at December 31, 2016	**187**

8. 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 December 31, 2016	**1,187**
Amortization	
Balance at January 1, 2015	-
Amortization	59
Balance at December 31, 2015	59
Amortization	**238**
Balance at December 31, 2016	**297**
Carrying Value	
Balance at January 1, 2015	-
Balance at December 31, 2015	1,121
Balance at December 31, 2016	**890**

9. TRADE AND OTHER PAYABLES

As at December 31 (thousands of Canadian dollars)	**2016**	2015
Trade payables and other accruals	**495**	1,502
Due to related parties	**1,990**	3,657
	2,485	5,159

As at December 31, 2016, trade and other payables included balances of $176,000 (2015 - $8,000) denominated in USD.

10. DEFERRED LIABILITY

The deferred liability represents Energy Marketing's current liability related to its expected commitments for 2017 under the power purchase agreement (PPA) with Newfoundland and Labrador Hydro (Hydro). The PPA, which became effective on 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-Québec dated April 1, 2009.

On September 14, 2016, the terms of the PPA were amended. Under the amendment, the PPA can be terminated by either party with notice provided 60 days prior to the intended termination date. At December 31, 2016, Management assessed the impact of the amendment and determined that the amended terms do not result in a change in accounting treatment of the PPA.

The deferred liability is amortized into income on a straight-line basis over the assumed 12 month term of the contract. The components of change are as follows:

As at December 31 (thousands of Canadian dollars)	**2016**	2015
Deferred liability, beginning of year	**61,241**	-
Additions	**51,148**	74,946
Amortization	**(61,241)**	(13,705)
Deferred liability, end of year	**51,148**	61,241

11. EMPLOYEE BENEFITS LIABILITY

11.1 Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions for the year ended December 31, 2016 of $180,600 (2015 - $168,500) were expensed as incurred.

11.2 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 or 2015. An actuarial valuation was performed as at December 31, 2016.

As at December 31 (thousands of Canadian dollars)	**2016**	2015
Accrued benefit obligation, beginning of year	**607**	-
Current service cost	**61**	71
Interest cost	**20**	27
Actuarial loss (gain)	**102**	(57)
Transfers	**(121)**	566
Accrued benefit obligation, end of year	**669**	607

When an employee transfers to a related party, the associated accrued benefit obligation is allocated to each respective party based upon years of service.

For the year ended December 31 (thousands of Canadian dollars)	**2016**	2015
Component of benefit cost		
Current service cost	**61**	71
Interest cost	**20**	27
Total benefit expense for the year	**81**	98

The significant actuarial assumptions used in measuring the accrued benefit obligation and benefit expense are as follows:

	2016	2015
Discount rate - benefit cost	**4.10%**	4.20%
Discount rate - accrued benefit obligation	**3.90%**	4.10%
Rate of compensation increase	**3.50%**	3.50%

Assumed healthcare trend rates:

	2016	2015
Initial healthcare expense trend rate	**5.85%**	6.00%
Cost trend decline to	**4.50%**	4.50%
Year that rate reaches that rate it is assumed to remain at	**2025**	2025

A 1% change in assumed healthcare trend rates would have had the following effects:

Increase (thousands of Canadian dollars)	**2016**	2015
Current service and interest cost	**30**	36
Accrued benefit obligation	**137**	141

Decrease (thousands of Canadian dollars)	**2016**	2015
Current service and interest cost	**(20)**	(24)
Accrued benefit obligation	**(96)**	(98)

12. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

Items that will not be reclassified to profit or loss:

(thousands of Canadian dollars)	**2016**	2015
Employee future benefits		
Balance at January 1	**(119)**	-
Net actuarial losses on defined benefit plans	**(102)**	(119)
Balance at December 31	**(221)**	(119)

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

(thousands of Canadian dollars)	**2016**	2015
Cash flow hedges		
Balance at January 1	**(1,325)**	-
Fair value gains (losses) during the year	**1,614**	(1,325)
Amounts reclassified to profit or loss	**(599)**	-
Balance at December 31	**(310)**	(1,325)

13. SHAREHOLDER'S EQUITY

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

14. TRANSMISSION AND MARKET FEES

For the year ended December 31 (thousands of Canadian dollars)	**2016**	2015
Transmission rental	**21,326**	5,190
Market fees	**725**	290
	22,051	5,480

15. OPERATING COSTS

For the year ended December 31 (thousands of Canadian dollars)	**2016**	2015
Salaries and benefits	**2,956**	2,498
Professional services	**1,547**	2,307
Cost recoveries	**357**	274
Travel and transportation	**71**	162
Maintenance and materials	**59**	57
Other operating costs	**245**	238
	5,235	5,536

16. NET FINANCE (INCOME) EXPENSE

For the year ended December 31 (thousands of Canadian dollars)	**2016**	2015
Finance income		
Bank interest	**3**	-
Finance costs		
Bank and interest charges	**191**	88
Other finance costs	**-**	61
	191	149
Net finance (income) expense	**188**	149

17. OTHER (INCOME) EXPENSE

For the year ended December 31 (thousands of Canadian dollars)		**2016**	2015
Mark-to-market of commodity swaps		**-**	2,054
Realized gain on commodity swap settlements		**(3,478)**	-
Mark-to-market of foreign exchange forward contracts		**-**	(308)
Hedge ineffectiveness		**3**	-
Realized (gain) loss on foreign exchange forward contracts		**(599)**	5,805
Mark-to-market of open market positions		**35**	(61)
Financial transmission rights income and amortization		**(1,598)**	(1,419)
Realized foreign exchange (gain)		**(99)**	(97)
Unrealized foreign exchange loss (gain)		**134**	(323)
Loss on disposal of property, plant and equipment		**3**	-
Net PPA (gains) losses	(a)	**-**	-
Other (income) expense		**(5,599)**	5,651

(a) Net changes in PPA fair value

For the year ended December 31 (thousands of Canadian dollars)	**2016**	2015
PPA gains		
Amortization of deferral	**(61,241)**	(13,705)
PPA losses		
Mark-to-market of derivative	**22,886**	5,173
Settlement of realized profit	**38,355**	8,532
	61,241	13,705
Net PPA (gains) losses	**-**	-

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

18.1 Fair Value

The estimated fair values of financial instruments as at December 31, 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.

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 measurements during the years ended December 31, 2016 and December 31, 2015.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
(thousands of Canadian dollars)		**December 31, 2016**		December 31, 2015	
Financial Assets					
Derivative assets	**2**	**26**	**26**	61	61
Derivative assets	**3**	**51,867**	**51,867**	61,577	61,577
Financial liabilities					
Derivative liabilities	**2**	**313**	**313**	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 forecasted energy sales net of recapture power purchases, for the 2017 calendar year. It does not include the value of transmission rights or other transportation and market related costs.

Financial transmission rights are purchased contracts 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 December 31, 2016.

(thousands of Canadian dollars)	Carrying Value	Valuation Techniques	Significant Unobservable Input(s)	Range
Derivative asset (Financial transmission rights)	**719**	Modelled pricing	Price, seasonality and market factors	9-26%
Derivative asset (Power purchase derivative asset)	**51,148**	Modelled pricing	Volumes (MWh)	35-48% 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 December 31, 2016, the effect of using reasonably possible alternative assumptions regarding the unobservable implied volatilities may have resulted in a $62,600 to $182,700 change in the carrying value of the financial transmission rights.

The derivative asset arising under the PPA is designated as a Level 3 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 December 31, 2016, the effect of using reasonably possible alternative assumptions for volume inputs to valuation techniques may have resulted in a +$0.1 million to +$6.6 million change in the carrying value of the power purchase derivative asset.

18.2 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.

Credit Risk

Energy Marketing's expected future cash flows are exposed to credit risk through its operating activities, primarily due to the potential for non-performance by its customers, and through its financing and investing activities, based on the risk of non-performance by counterparties to its financial instruments. The degree of exposure to credit risk on trade receivables is minimal and the receivables are primarily due from independent system operators or approved counterparties, which are either investment-grade or have provided sufficient collateral to support their obligations. Exposure to approved counterparties is continuously monitored to ensure credit limits are adhered to, and in cases where those limits may be exceeded additional collateral is required. The maximum exposure to credit risk on these financial instruments is represented by their carrying values on the Statement of Financial Position at the reporting date.

Credit risk on cash and cash equivalents is considered to be minimal, as Energy Marketing's cash deposits are held by a Canadian Schedule 1 Chartered bank with a rating of A+ (Standard and Poor's).

Credit exposure on derivative assets is limited by the Financial Risk Management Policy, an internal risk policy approved by the Board of Directors, which restricts available counterparties for hedge transactions to Canadian Schedule 1 Chartered banks and Federally Chartered US banks.

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 no amounts outstanding as of December 31, 2016 (December 31, 2015 - $8.2 million).

As at December 31, 2016, Nalcor, on behalf of Energy Marketing, has issued $8.5 million in 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 13, 2016, Nalcor, on behalf of Energy Marketing, issued irrevocable letters of credit in favour of transmission providers in New England, in the amount of $0.2 million USD and $0.3 million USD, respectively. On October 27, 2016, Nalcor, on behalf of Energy Marketing, issued an irrevocable letter of credit in favour of a bilateral counterparty in the amount of $0.3 million USD. On December 8, 2016, Nalcor, on behalf of Energy Marketing, increased an existing irrevocable letter of credit issued to a system operator from $0.2 to $0.6 million.

Market Risk

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.

Energy Marketing participates in the day-ahead market of several independent system operators and enters into fixed price transactions with bilateral counterparties. Changes in fair value associated with the difference between the committed energy price and real time energy during the hour the energy physically flows are included in energy sales on the Statement of Profit (Loss) and Comprehensive Income (Loss). During 2016, $4.4 million in gains (2015 – $1.3 million) related to these fair value differences were included in energy sales.

Interest Rates

Changes in prevailing interest rates will impact the fair value of financial assets and liabilities, which includes Energy Marketing's cash and cash equivalents. The impact of 0.5% change in interest rates on the Statement of Profit (Loss) and Comprehensive Income (Loss) associated with cash and cash equivalents was negligible throughout 2016 due to the short time period to maturity.

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. Tactics include the use of forward rate agreements and fixed price commodity swaps.

The table below shows the impact of a 5% change in foreign exchange rates on the trade and other receivables and trade and other payables as at December 31, 2016:

(thousands of Canadian dollars)	5% Decrease	5% Increase
Trade and other receivables	(91)	91
Trade and other payables	(9)	9

During 2016, total energy sales denominated in USD were $31.7 million USD (2015 - $5.5 million). To mitigate foreign exchange risk on these sales, Energy Marketing used foreign currency forward contracts. In December 2015, Energy Marketing entered into a series of foreign exchange forward contracts with a notional value of $29.0 million USD and an average exchange rate of $1.34 CAD per USD to hedge foreign exchange risk on 60% of planned USD energy sales for 2016.

In December 2016, Energy Marketing entered into a series of foreign exchange forward contracts to hedge foreign exchange risk on approximately 58% of anticipated USD electricity sales in 2017. These contracts, with a notional value of $20.2 million USD, provide Energy Marketing with an average rate of $1.32 CAD per USD.

As the foreign exchange forward contracts have been designated as hedging instruments, changes in fair value have been recorded in other comprehensive income. During 2016, $0.1 million in losses from foreign exchange forward contracts were included in other (income) expense (2015 - $5.5 million loss) and $0.3 million in gains (2015 - $1.3 million in losses) remain in other comprehensive income.

In December 2015, Energy Marketing entered into a series of fixed price commodity swaps to hedge commodity price risk on approximately 60% of planned energy sales for 2016. These contracts, with a notional value of $29.0 million USD were to provide Energy Marketing with an average price of $41.30 USD per megawatt hour (MWh) (Peak) and $21.60 USD per MWh (Off-Peak). All fixed price commodity swaps were settled by June 30, 2016. During 2016, $3.5 million in gains have been included in other (income) expense.

During 2016, additional financial transmission rights with notional values of $1.5 million USD were purchased to mitigate risk on congestion for the remainder of 2016 and a significant portion of 2017. As the rights have not been designated under hedge accounting, changes in fair value have been recorded in other (income) expense.

	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	**-**	**-**	**1,945**	**-**	**1,945**
Additions	**-**	**-**	**51,148**	**-**	**51,148**
	(4,051)	**61**	**114,670**	**(3,990)**	**114,670**
Changes to profit (loss)					
Amortization	**-**	**-**	**(1,591)**	**-**	**(1,591)**
Mark-to-market	**3,478**	**(35)**	**(22,857)**	**3,443**	**(22,857)**
Hedge ineffectiveness	**(3)**	**-**	**-**	**(3)**	**-**
Settlements	**(752)**	**-**	**(38,355)**	**(752)**	**(38,355)**
Total	**2,723**	**(35)**	**(62,803)**	**2,688**	**(62,803)**
Changes in other comprehensive income					
Mark-to-market	**1,614**	**-**	**-**	**1,614**	**-**
Settlements realized in profit (loss)	**(599)**	**-**	**-**	**(599)**	**-**
Total	**1,015**	**-**	**-**	**1,015**	**-**
Balance at December 31, 2016	**(313)**	**26**	**51,867**	**(287)**	**51,867**
Balance at January 1, 2015	(980)	-	68	(980)	68
Purchases	-	-	1,164	-	1,164
Additions	-	-	74,946	-	74,946
	(980)	-	76,178	(980)	76,178
Changes to profit (loss)					
Amortization	-	-	(896)	-	(896)
Mark-to-market	(7,551)	61	(5,173)	(7,490)	(5,173)
Settlements	5,805	-	(8,532)	5,805	(8,532)
Total	(1,746)	61	(14,601)	(1,685)	(14,601)
Changes in other comprehensive income					
Mark-to-market	(1,325)	-	-	(1,325)	-
Total	(1,325)	-	-	(1,325)	-
Balance at December 31, 2015	(4,051)	61	61,577	(3,990)	61,577

19. 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
Newfoundland and Labrador Hydro (Hydro)	100% owned subsidiary of Nalcor

(a) For the year ended December 31, 2016, Energy Marketing was charged $19.2 million (2015 - $4.9 million) for the use of firm transmission rights and $3.9 million (2015 - $1.0 million) for purchased power by Hydro, as agreed upon in the PPA between Energy Marketing and Hydro.

(b) For the year ended December 31, 2016, Energy Marketing was charged $248,100 (2015 - $257,000) by Hydro for management and administrative services received.

(c) For the year ended December 31, 2016, Energy Marketing was charged $177,700 (2015 - $24,700) by Nalcor for administrative and corporate services received.

(d) For the year ended December 31, 2016, Energy Marketing was charged $652,000 (2015 – $172,600) by Nalcor related to intercompany salaries.

(e) As at December 31, 2016, Energy Marketing has a payable to Hydro of $1.8 million (2015 - $3.1 million) primarily related to intercompany transmission rental and purchased power.

(f) As at December 31, 2016, Energy Marketing has a payable to Nalcor of $96,400 (2015 - $549,000) related to intercompany expenses and recoveries.

19.1 Key Management Personnel Compensation

Compensation for key management personnel, which Energy Marketing defines as its executives who have the primary authority and responsibility in planning, directing and controlling the activities of the entity, includes compensation for senior executives. Salaries and employee benefits include base salaries, performance contract payments, vehicle allowances and contributions to employee benefit plans. Post-employment benefits include contributions to the Province’s Public Service Pension Plan.

For the year ended December 31 (thousands of Canadian dollars)	**2016**	2015
Salaries and short-term employee benefits	**14**	35
Post-employment benefits	**1**	2
	15	37

20. 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, will not materially affect the financial position of Energy Marketing.

(b) In December 2016, Energy Marketing entered into two, one-year agreements with a transmission provider for 22MW of firm transmission rights. Estimated payments in 2017 are $1.1 million USD.

(c) Under the terms of the PPA with Hydro, Energy Marketing has committed to purchase available recapture energy and reimburse Hydro for use of its transmission service rights during 2017. The estimated commitment is

approximately $3.2 million for recapture power purchases and $20.6 million related to reimbursements for the use of transmission service rights.

(d) Energy Marketing holds firm transmission rights with a number of counterparties in order to gain access to export markets. As at December 31, 2016, commitments for transmission rights total $23.8 million for 2017, including transmission commitments mentioned above. No transmission rights held by Energy Marketing extend beyond December 31, 2017.

21. CAPITAL MANAGEMENT

Energy Marketing's objective when managing capital is to maintain its ability to continue as a going concern. Energy Marketing's capital consists of shareholder's equity, specifically, share capital, reserves and retained earnings. Capital resource requirements are limited to working capital needs, which are funded through cash from operations, support from its parent, and a $20.0 million demand operating facility with its primary banker.

22. SUPPLEMENTARY CASH FLOW INFORMATION

For the year ended December 31 (thousands of Canadian dollars)	**2016**	2015
Trade and other receivables	**(775)**	(1,081)
Prepayments	**(179)**	(109)
Trade and other payables	**(2,674)**	3,985
Changes in non-cash working capital balances	**(3,628)**	2,795
Related to:		
Operating activities	**(3,633)**	2,795
Investing activities	**5**	-
	(3,628)	2,795

23. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the basis of presentation adopted during the current reporting period. The changes have been summarized as follows and have no effect on profit or loss:

(thousands of Canadian dollars)	Previously reported	Financial purchases presentation	Transmission and market fee presentation	**Reclassified balance**
Energy sales	9,533	(562)	-	**8,971**
Operating costs	10,742	-	(5,206)	**5,536**
Transmission rental and market fees	-	-	5,480	**5,480**
Power purchased	1,841	(562)	(274)	**1,005**