NALCOR ENERGY MARKETING CORPORATION
CONDENSED INTERIM FINANCIAL STATEMENTS
March 31, 2017
(Unaudited)

NALCOR ENERGY MARKETING CORPORATION
STATEMENT OF FINANCIAL POSITION
(Unaudited)

As at (thousands of Canadian dollars)	Notes	**March 31 2017**	December 31 2016
ASSETS			
Current assets			
Cash and cash equivalents		**11,346**	5,797
Trade and other receivables		**1,272**	1,872
Prepayments		**432**	633
Derivative assets	12	**41,203**	51,893
Total current assets		**54,253**	60,195
Property, plant and equipment	3	**179**	187
Intangible assets	4	**831**	890
Total non-current assets		**1,010**	1,077
Total assets		**55,263**	61,272
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		**5,111**	2,485
Derivative liabilities	12	**135**	313
Deferred liability	5	**38,361**	51,148
Total current liabilities		**43,607**	53,946
Employee future benefits		**695**	669
Total liabilities		**44,302**	54,615
Shareholder's equity			
Share capital		**1**	1
Reserves	7	**(278)**	(531)
Retained earnings		**11,238**	7,187
Total equity		**10,961**	6,657
Total liabilities and equity		**55,263**	61,272

Commitments and contingencies (Note 14)

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

For the period ended March 31 (thousands of Canadian dollars)	Notes	**Three months ended 2017**	2016
			(Note 16)
Energy sales		**11,137**	6,757
Transmission and market fees	8	**6,177**	5,264
Operating costs	9	**1,261**	1,336
Power purchased		**1,193**	858
Depreciation and amortization	3,4	**67**	46
Net finance expense	10	**2**	52
Other income	11	**(1,614)**	(10,888)
Expenses		**7,086**	(3,332)
Profit for the period		**4,051**	10,089
Other comprehensive income			
Total items that may or have been reclassified to profit or loss:			
Net fair value gains on cash flow hedges	7	**279**	2,022
Reclassification adjustments related to:			
Cash flow hedges recognized in profit or loss	7	**(26)**	248
Other comprehensive income for the period		**253**	2,270
Total comprehensive income for the period		**4,304**	12,359

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 (Deficit)	Total
Balance at January 1, 2017		**1**	**(310)**	**(221)**	**7,187**	**6,657**
Profit for the period		**-**	**-**	**-**	**4,051**	**4,051**
Other comprehensive income						
Net change in fair value of cash flow hedge	**7**	**-**	**279**	**-**	**-**	**279**
Net change in fair value of financial instruments reclassified to profit or loss	**7**	**-**	**(26)**	**-**	**-**	**(26)**
Total comprehensive income for the period		**-**	**253**	**-**	**4,051**	**4,304**
Balance at March 31, 2017		**1**	**(57)**	**(221)**	**11,238**	**10,961**
Balance at January 1, 2016		1	(1,325)	(119)	(9,922)	(11,365)
Profit for the period		-	-	-	10,089	10,089
Other comprehensive income						
Net change in fair value of cash flow hedge	7	-	2,022	-	-	2,022
Net change in fair value of financial instruments reclassified to profit or loss	7	-	248	-	-	248
Total comprehensive income for the period		-	2,270	-	10,089	12,359
Balance at March 31, 2016		1	945	(119)	167	994

See accompanying notes

NALCOR ENERGY MARKETING CORPORATION
STATEMENT OF CASH FLOWS
(Unaudited)

For the period ended March 31 (thousands of Canadian dollars)	Notes	**Three months ended** **2017**	2016
Operating activities			
Profit for the period		**4,051**	10,089
Adjusted for items not involving a cash flow:			
Depreciation and amortization	3,4	**67**	46
Employee benefits	6	**26**	18
Gain on power purchase agreement balances	11(a)	**(1,736)**	(4,266)
Unrealized loss (gain) on derivatives		**566**	(4,062)
		2,974	1,825
Changes in non-cash working capital balances	15	**3,427**	(44)
Net cash provided from operating activities		**6,401**	1,781
Investing activities			
Additions to intangible assets	4	**-**	(28)
Additions to financial transmission rights	12	**(852)**	(1,355)
Net cash used in investing activities		**(852)**	(1,383)
Net increase in cash and cash equivalents		**5,549**	398
Cash and cash equivalents (bank indebtedness), beginning of period		**5,797**	(4,791)
Cash and cash equivalents (bank indebtedness), end of period		**11,346**	(4,393)
Interest received		**6**	-
Interest paid		**8**	52

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 using accounting policies consistent with those used in the preparation of the annual audited financial statements for the year ended December 31, 2016.

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 Board of Directors (the Board) has delegated the authority to approve the condensed interim financial statements to the Audit Committee of the Board of Directors of Nalcor, which approved the financial statements on May 9, 2017.

3. PROPERTY, PLANT AND EQUIPMENT

(thousands of Canadian dollars)	Computer Hardware and Furniture
Cost	
Balance at January 1, 2016	183
Additions	43
Disposals	(3)
Balance at December 31, 2016	223
Additions	**-**
Disposals	**-**
Balance at March 31, 2017	**223**
Depreciation	
Balance at January 1, 2016	9
Depreciation	27
Balance at December 31, 2016	36
Depreciation	**8**
Balance at March 31, 2017	**44**
Carrying value	
Balance at January 1, 2016	174
Balance at December 31, 2016	187
Balance at March 31, 2017	**179**

4. INTANGIBLE ASSETS

(thousands of Canadian dollars)	Computer Software
Cost	
Balance at January 1, 2016	1,180
Additions	7
Balance at December 31, 2016	1,187
Additions	**-**
Balance at March 31, 2017	**1,187**
Amortization	
Balance at January 1, 2016	59
Amortization	238
Balance at December 31, 2016	297
Amortization	**59**
Balance at March 31, 2017	**356**
Carrying Value	
Balance at January 1, 2016	1,121
Balance at December 31, 2016	890
Balance at March 31, 2017	**831**

5. DEFERRED LIABILITY

The deferred liability represents Energy Marketing's current liability related to its expected remaining 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. The PPA can be terminated by either party with notice provided 60 days prior to the intended termination date. At March 31, 2017, Management assessed the anticipated term of the contract and determined no change in the accounting treatment was required.

The deferred liability is amortized into income on a straight-line basis over the assumed 12 month term of the contract, which commenced on January 1, 2017. The components of change are as follows:

As at (thousands of Canadian dollars)	**March 31 2017**	December 31 2016
Deferred liability, beginning of period	**51,148**	61,241
Additions	**-**	51,148
Amortization	**(12,787)**	(61,241)
Deferred liability, end of period	**38,361**	51,148

6. EMPLOYEE FUTURE BENEFITS

6.1 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 March 31, 2017 of $44,500 (2016 - $43,600) were expensed as incurred.

6.2 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 2017 or 2016. An actuarial valuation was performed as at December 31, 2016.

	Three months	
For the period ended March 31 (thousands of Canadian dollars)	**2017**	2016
Component of benefit cost		
Current service cost	**19**	14
Interest cost	**7**	4
Total benefit expense for the year	**26**	18

7. 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)	**2017**	2016
Employee future benefits		
Balance at January 1	**(221)**	(119)
Net actuarial losses on defined benefit plans	**-**	-
Balance at March 31	**(221)**	(119)

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

(thousands of Canadian dollars)	**2017**	2016
Cash flow hedges		
Balance at January 1	**(310)**	(1,325)
Fair value gains during the year	**279**	2,022
Amounts reclassified to profit or loss	**(26)**	248
Balance at March 31	**(57)**	945

8. TRANSMISSION AND MARKET FEES

	Three months ended	
For the period ended March 31 (thousands of Canadian dollars)	**2017**	2016
		(Note 16)
Transmission rental	**5,896**	5,120
Market fees	**281**	144
	6,177	5,264

9. OPERATING COSTS

For the period ended March 31 (thousands of Canadian dollars)	**Three months ended** **2017**	2016 (Note 16)
Salaries and benefits	**819**	726
Professional services	**213**	431
Cost recoveries	**119**	97
Travel and transportation	**22**	5
Maintenance and materials	**19**	8
Other operating costs	**69**	69
	1,261	1,336

10. NET FINANCE EXPENSE

For the period ended March 31 (thousands of Canadian dollars)	**Three months ended** **2017**	2016
Finance income		
Bank interest	**(6)**	-
Finance costs		
Bank and interest charges	**8**	52
	8	52
Net finance expense	**2**	52

11. OTHER INCOME

For the period ended March 31 (thousands of Canadian dollars)		**Three months ended** **2017**	2016
Mark-to-market of commodity swaps		**-**	(3,623)
Settlement of commodity swaps		**-**	(3,421)
Hedge ineffectiveness		**(3)**	-
Realized (gain) loss on foreign exchange forward contracts		**(26)**	248
Mark-to-market of open market positions		**104**	61
Financial transmission rights income and amortization		**(2)**	(102)
Realized foreign exchange loss (gain)		**15**	(2)
Unrealized foreign exchange loss		**34**	217
Net PPA gain	(a)	**(1,736)**	(4,266)
Other income		**(1,614)**	(10,888)

(a) Net changes in PPA fair value

For the period ended March 31 (thousands of Canadian dollars)	**Three months ended** **2017**	2016
PPA gain		
Amortization of deferral	**(12,787)**	(15,310)
PPA losses		
Mark-to-market of derivative	**1,568**	5,215
Settlement of realized profit	**9,483**	5,829
	11,051	11,044
Net PPA gain	**(1,736)**	(4,266)

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

12.1 Fair Value

The estimated fair values of financial instruments as at March 31, 2017 and December 31, 2016 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 measurements during the period ended March 31, 2017 and the year ended December 31, 2016.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
(thousands of Canadian dollars)			**March 31, 2017**		December 31, 2016
Financial Assets					
Derivative assets	**2**	**-**	**-**	26	26
Derivative assets	**3**	**41,203**	**41,203**	51,867	51,867
Financial liabilities					
Derivative liabilities	**2**	**135**	**135**	313	313

The fair values of cash and cash equivalents, 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 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 remainder of 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 March 31, 2017.

(thousands of Canadian dollars)	Carrying Value	Valuation Techniques	Significant Unobservable Input(s)	Range
Derivative asset (Financial transmission rights)	**1,106**	Modelled pricing	Price, seasonality and market factors	12-15%
Derivative asset (Power purchase derivative asset)	**40,097**	Modelled pricing	Volumes (MWh)	38-49% 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 March 31, 2017, the effect of using reasonably possible alternative assumptions regarding the unobservable implied volatilities may have resulted in $(167,400) to $(133,000) 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 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 March 31, 2017, the effect of using reasonably possible alternative assumptions for volume inputs to valuation techniques may have resulted in $0.1 million to $4.7 million change in the carrying value of the power purchase derivative asset.

12.2 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.

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 March 31, 2017 (December 31, 2016 - $nil).

As at March 31, 2017, Nalcor, on behalf of Energy Marketing, has issued $8.4 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.

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 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.

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 may include the use of forward rate agreements and fixed price commodity swaps, when high correlation exists between the hedged item and the hedging item.

As at March 31, 2017, Energy Marketing had 18 foreign exchange forward contracts remaining, with a notional value of $15.2 million USD, and an average rate of $1.32 CAD per USD. As these contracts have all been designated as hedged instruments, changes in fair value have been recorded in other comprehensive income. During 2017, $26,000 in gains (2016 - $901,000 in losses) have been included in other income related to the forward contracts and $57,000 in unrealized losses (2016 - $945,000 in gains) remain in other comprehensive income. As at March 31, 2017, the fair value of the foreign exchange forward contract liability presented on the Statement of Financial Position was $57,000 (December 31, 2016 - $313,000).

During 2017, Energy Marketing purchased additional annual and semi-annual financial transmission rights with notional values totaling $0.6 million USD to mitigate risk on congestion during peak transmission hours for the remainder of 2017 and a portion of 2018. As the rights have not been designated as hedging instruments, changes in fair value have been recorded in other income.

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 and Comprehensive Income. For the period ended March 31, 2017, $0.9 million in realized gains (2016 – $0.7 million) related to these fair value differences were included in energy sales.

The components of change impacting the carrying value of derivative assets and liabilities for the three month periods ended March 31, 2017 and 2016 are as follows:

	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, 2017	**(313)**	**26**	**51,867**	**(287)**	**51,867**
Purchases	**-**	**-**	**852**	**-**	**852**
	(313)	**26**	**52,719**	**(287)**	**52,719**
Changes to profit (loss)					
Amortization	**-**	**-**	**(465)**	**-**	**(465)**
Mark-to-market	**-**	**(104)**	**(1,568)**	**(104)**	**(1,568)**
Hedge ineffectiveness	**3**	**-**	**-**	**3**	**-**
Settlements	**-**	**-**	**(9,483)**	**-**	**(9,483)**
Total	**3**	**(104)**	**(11,516)**	**(101)**	**(11,516)**
Changes in other comprehensive income					
Mark-to-market	**279**	**-**	**-**	**279**	**-**
Settlements realized in profit (loss)	**(26)**	**-**	**-**	**(26)**	**-**
Total	**253**	**-**	**-**	**253**	**-**
Balance at March 31, 2017	**(57)**	**(78)**	**41,203**	**(135)**	**41,203**
Balance at January 1, 2016	(4,051)	61	61,577	(3,990)	61,577
Purchases	-	-	1,355	-	1,355
	(4,051)	61	62,932	(3,990)	62,932
Changes to profit (loss)					
Amortization	-	-	(172)	-	(172)
Mark-to-market	7,043	(61)	(5,215)	6,982	(5,215)
Settlements	(2,748)	-	(5,829)	(2,748)	(5,829)
Total	4,295	(61)	(11,216)	4,234	(11,216)
Changes in other comprehensive income					
Mark-to-market	2,022	-	-	2,022	-
Settlements realized in profit (loss)	248	-	-	248	-
Total	2,270	-	-	2,270	-
Balance at March 31, 2016	2,514	-	51,716	2,514	51,716

13. 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 period ended March 31, 2017, Energy Marketing was charged $5.0 million (2016 - $4.9 million) for the use of firm transmission rights and $0.6 million (2016 - $0.8 million) for purchased power by Hydro, as agreed upon in the PPA between Energy Marketing and Hydro.

(b) For the period ended March 31, 2017, Energy Marketing was charged $75,000 (2016 - $42,500) by Nalcor for administrative and corporate services received.

(c) For the period ended March 31, 2017, Energy Marketing was charged $163,000 (2016 – $136,600) by Nalcor related to intercompany salaries.

(d) As at March 31, 2017, Energy Marketing has a payable to Hydro of $3.5 million (December 31, 2016 - $1.8 million) primarily related to intercompany transmission rental and purchased power.

(e) As at March 31, 2017, Energy Marketing has a payable to Nalcor of $187,600 (December 31, 2016 - $96,400) related to intercompany expenses and recoveries.

14. COMMITMENTS AND CONTINGENCIES

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.

15. SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended	
For the period ended March 31 (thousands of Canadian dollars)	**2017**	2016
Trade and other receivables	**600**	(684)
Prepayments	**201**	77
Trade and other payables	**2,626**	563
Changes in non-cash working capital balances	**3,427**	(44)
Related to:		
Operating activities	**3,427**	(44)

16. 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	6,912	(155)	-	**6,757**
Transmission rental and market fees	-	-	5,264	**5,264**
Operating costs	6,600	-	(5,264)	**1,336**
Power purchased	1,013	(155)	-	**858**