

**NALCOR ENERGY MARKETING CORPORATION
CONDENSED INTERIM FINANCIAL STATEMENTS**

September 30, 2017

(Unaudited)

NALCOR ENERGY MARKETING CORPORATION
STATEMENT OF FINANCIAL POSITION
(Unaudited)

<i>As at (thousands of Canadian dollars)</i>	Notes	September 30	December 31
		2017	2016
ASSETS			
Current assets			
Cash and cash equivalents		17,867	5,797
Trade and other receivables		2,314	1,872
Prepayments		173	633
Derivative assets	8	9,713	51,893
Total current assets		30,067	60,195
Property, plant and equipment		165	187
Intangible assets		712	890
Total non-current assets		877	1,077
Total assets		30,944	61,272
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		4,442	2,485
Derivative liabilities	8	14	313
Deferred liability	3	12,787	51,148
Total current liabilities		17,243	53,946
Employee future benefits		748	669
Total liabilities		17,991	54,615
Shareholder's equity			
Share capital		1	1
Reserves	4	83	(531)
Retained earnings		12,869	7,187
Total equity		12,953	6,657
Total liabilities and equity		30,944	61,272

Commitments and contingencies (Note 10)

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

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Nine months ended	
		2017	2016	2017	2016
Energy sales		11,983	17,189 (Note 12)	34,285	32,960 (Note 12)
Transmission and market fees	5	5,942	5,611	18,235	16,441
Operating costs	6	1,153	1,129	3,704	4,168
Power purchased		1,001	1,322	2,966	3,386
Depreciation and amortization		67	66	200	197
Net finance expense		14	54	21	163
Other expense (income)	7	3,130	(2,862)	3,477	1,391
Expenses		11,307	5,320	28,603	25,746
Profit for the period		676	11,869	5,682	7,214
Other comprehensive income					
<i>Total items that may or have been reclassified to profit or loss:</i>					
Net fair value gains on cash flow hedges	4	377	(199)	875	2,025
Reclassification adjustments related to:					
Cash flow hedges recognized in profit or loss	4	(344)	(364)	(261)	(544)
Other comprehensive income (loss) for the period		33	(563)	614	1,481
Total comprehensive income for the period		709	11,306	6,296	8,695

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		-	-	-	5,682	5,682
Other comprehensive income						
Net change in fair value of cash flow hedge	4	-	875	-	-	875
Net change in fair value of financial instruments reclassified to profit or loss	4	-	(261)	-	-	(261)
Total comprehensive income for the period		-	614	-	5,682	6,296
Balance at September 30, 2017		1	304	(221)	12,869	12,953
Balance at January 1, 2016		1	(1,325)	(119)	(9,922)	(11,365)
Profit for the period		-	-	-	7,214	7,214
Other comprehensive income						
Net change in fair value of cash flow hedge	4	-	2,025	-	-	2,025
Net change in fair value of financial instruments reclassified to profit or loss	4	-	(544)	-	-	(544)
Total comprehensive income for the period		-	1,481	-	7,214	8,695
Balance at September 30, 2016		1	156	(119)	(2,708)	(2,670)

See accompanying notes

NALCOR ENERGY MARKETING CORPORATION
STATEMENT OF CASH FLOWS
(Unaudited)

		Three months ended		Nine months ended	
	Notes	2017	2016	2017	2016
<i>For the period ended September 30 (thousands of Canadian dollars)</i>					
Operating activities					
Profit for the period		676	11,869	5,682	7,214
Adjusted for items not involving a cash flow:					
Loss on power purchase agreement balances	7(a)	3,553	(2,610)	3,906	6,158
Loss (gain) on other derivatives		481	640	1,378	(1,518)
Other		94	97	279	283
		4,804	9,996	11,245	12,137
Changes in non-cash working capital balances	11	711	467	1,956	(2,541)
Net cash provided from operating activities		5,515	10,463	13,201	9,596
Investing activities					
Additions to financial transmission rights	8	(131)	(273)	(1,150)	(1,835)
Other		20	(4)	19	(14)
Net cash used in investing activities		(111)	(277)	(1,131)	(1,849)
Net increase in cash and cash equivalents		5,404	10,186	12,070	7,747
Cash and cash equivalents (bank indebtedness), beginning of period		12,463	(7,230)	5,797	(4,791)
Cash and cash equivalents, end of period		17,867	2,956	17,867	2,956
Interest received		11	1	24	1
Interest paid		25	55	45	164

See accompanying notes

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

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 November 7, 2017.

3. DEFERRED LIABILITY

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:

<i>As at (thousands of Canadian dollars)</i>	September 30	December 31
	2017	2016
Deferred liability, beginning of period	51,148	61,241
Additions	-	51,148
Amortization	(38,361)	(61,241)
Deferred liability, end of period	12,787	51,148

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

4. 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:

<i>(thousands of Canadian dollars)</i>	2017	2016
Employee future benefits		
Balance at January 1	(221)	(119)
Net actuarial losses on defined benefit plans	-	-
Balance at September 30	(221)	(119)

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

<i>(thousands of Canadian dollars)</i>	2017	2016
Cash flow hedges		
Balance at January 1	(310)	(1,325)
Fair value gains during the year	875	2,025
Amounts reclassified to profit or loss	(261)	(544)
Balance at September 30	304	156

5. TRANSMISSION AND MARKET FEES

	Three months ended		Nine months ended	
<i>For the period ended September 30 (thousands of Canadian dollars)</i>	2017	2016	2017	2016
		(Note 12)		(Note 12)
Transmission rental	5,746	5,392	17,508	15,915
Market fees	196	219	727	526
	5,942	5,611	18,235	16,441

6. OPERATING COSTS

	Three months ended		Nine months ended	
<i>For the period ended September 30 (thousands of Canadian dollars)</i>	2017	2016	2017	2016
		(Note 12)		(Note 12)
Salaries and benefits	779	718	2,401	2,251
Professional services	165	219	674	1,348
Cost recoveries	98	85	279	287
Travel and transportation	18	22	71	53
Maintenance and materials	19	21	44	52
Other operating costs	74	64	235	177
	1,153	1,129	3,704	4,168

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

7. OTHER EXPENSE (INCOME)

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2017	2016	2017	2016
Settlement of commodity swaps	-	-	-	(3,478)
Realized gain on foreign exchange forward contracts	(344)	(364)	(261)	(544)
Hedge ineffectiveness	1	60	(3)	-
Mark-to-market of open market positions	36	50	40	92
Financial transmission rights income and amortization	(583)	62	(999)	(942)
Realized foreign exchange loss (gain)	158	(67)	138	(72)
Unrealized foreign exchange loss	309	4	712	174
Loss on disposal of property, plant and equipment	-	3	-	3
Net change in PPA fair value (a)	3,553	(2,610)	3,906	6,158
Other income	-	-	(56)	-
Other expense (income)	3,130	(2,862)	3,477	1,391

(a) Net changes in PPA fair value

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2017	2016	2017	2016
Amortization of deferral	(12,787)	(15,310)	(38,361)	(45,931)
Mark-to-market of derivative	5,408	(2,976)	12,004	23,042
Settlement of realized profit	10,932	15,676	30,263	29,047
Net PPA losses (gains)	3,553	(2,610)	3,906	6,158

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

8.1 Fair Value

The estimated fair values of financial instruments as at September 30, 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 some 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

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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 September 30, 2017 and the year ended December 31, 2016.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		September 30, 2017		December 31, 2016	
<i>(thousands of Canadian dollars)</i>					
Financial Assets					
Derivative assets	2	304	304	26	26
Derivative assets	3	9,409	9,409	51,867	51,867
Financial liabilities					
Derivative liabilities	2	14	14	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 September 30, 2017.

	Carrying Value	Valuation Techniques	Significant Unobservable Input(s)	Range
<i>(thousands of Canadian dollars)</i>				
Derivative asset (Financial transmission rights)	528	Modelled pricing	Price, seasonality and market factors	31-43%
Derivative asset (Power purchase derivative asset)	8,881	Modelled pricing	Volumes (MWh)	32-47% 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 September 30, 2017, the effect of using reasonably possible alternative assumptions regarding the unobservable implied volatilities may have resulted in \$175,100 to \$240,600 change in the carrying value of the financial transmission rights.

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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 September 30, 2017, the effect of using reasonably possible alternative assumptions for volume inputs to valuation techniques may have resulted in \$nil to \$1.3 million change in the carrying value of the power purchase derivative asset.

8.2 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 September 30, 2017 (December 31, 2016 - \$nil).

As at September 30, 2017, Nalcor, on behalf of Energy Marketing, has issued \$8.1 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 July 17, 2017, Nalcor, on behalf of Energy Marketing, issued an irrevocable letter of credit in the amount of \$0.1 million, as required prudential support to participate in the financial markets.

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 September 30, 2017, Energy Marketing had six foreign exchange forward contracts remaining, with a notional value of \$4.3 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, \$261,000 in gains (2016 - \$544,000) have been included in other expense (income) related to forward contracts and \$304,000 in unrealized gains (2016 - \$156,000) remain in other comprehensive income. As at September 30, 2017, the fair value of the foreign exchange forward contract asset presented on the Statement of Financial Position was \$304,000 (December 31, 2016 - \$313,000 liability).

NALCOR ENERGY MARKETING CORPORATION
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During 2017, Energy Marketing purchased additional annual and semi-annual financial transmission rights with notional values totaling \$0.9 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 September 30, 2017, \$3.9 million in realized gains (2016 – \$4.7 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 nine month periods ended September 30, 2017 and 2016 are as follows:

<i>(thousands of Canadian dollars)</i>	Commodity and		Other Derivatives		Total	
	Forward Contracts		Level II	Level III	Level II	Level III
Balance at January 1, 2017	(313)	26	51,867		(287)	51,867
Purchases	-	-	1,150		-	1,150
	(313)	26	53,017		(287)	53,017
Changes to profit (loss)						
Amortization	-	-	(1,246)		-	(1,246)
Mark-to-market	-	(40)	(12,099)		(40)	(12,099)
Hedge ineffectiveness	3	-	-		3	-
Settlements	-	-	(30,263)		-	(30,263)
Total	3	(40)	(43,608)		(37)	(43,608)
Changes in other comprehensive income						
Mark-to-market	875	-	-		875	-
Settlements realized in profit (loss)	(261)	-	-		(261)	-
Total	614	-	-		614	-
Balance at September 30, 2017	304	(14)	9,409		290	9,409
Balance at January 1, 2016	(4,051)	61	61,577		(3,990)	61,577
Purchases	-	-	1,835		-	1,835
	(4,051)	61	63,412		(3,990)	63,412
Changes to profit (loss)						
Amortization	-	-	(1,117)		-	(1,117)
Mark-to-market	5,531	(92)	(23,042)		5,439	(23,042)
Settlements	(2,805)	-	(29,047)		(2,805)	(29,047)
Total	2,726	(92)	(53,206)		2,634	(53,206)
Changes in other comprehensive income						
Mark-to-market	2,025	-	-		2,025	-
Settlements realized in profit (loss)	(544)	-	-		(544)	-
Total	1,481	-	-		1,481	-
Balance at September 30, 2016	156	(31)	10,206		125	10,206

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

9. 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)	Wholly-owned subsidiary of Nalcor

- (a) For the period ended September 30, 2017, Energy Marketing was charged \$14.8 million (2016 - \$14.4 million) for the use of firm transmission rights and \$2.4 million (2016 - \$3.3 million) for purchased power by Hydro, as agreed upon in the PPA between Energy Marketing and Hydro.
- (b) As at September 30, 2017, Energy Marketing has a payable to Hydro of \$3.7 million (December 31, 2016 - \$1.9 million) related to intercompany expenses and recoveries.
- (c) For the period ended September 30, 2017, Energy Marketing was charged \$0.6 million (2016 - \$0.6 million) by Nalcor related to intercompany salaries.

10. 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.

11. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2017	2016	2017	2016
Trade and other receivables	(334)	711	(442)	(704)
Prepayments	99	106	460	318
Trade and other payables	966	(350)	1,957	(2,155)
Changes in non-cash working capital balances	731	467	1,975	(2,541)
Operating activities	711	467	1,956	(2,541)
Investing activities	20	-	19	-
	731	467	1,975	(2,541)

NALCOR ENERGY MARKETING CORPORATION
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12. 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:

<i>Three months ended September 30 (thousands of Canadian dollars)</i>	Previously reported	Transmission and market fee presentation	Reclassified Balance
Statement of Profit and Comprehensive Income			
Transmission rental and market fees	-	5,611	5,611
Operating costs	6,740	(5,611)	1,129

<i>Nine months ended September 30 (thousands of Canadian dollars)</i>	Previously reported	Transmission and market fee presentation	Reclassified Balance
Statement of Profit and Comprehensive Income			
Transmission rental and market fees	-	16,441	16,441
Operating costs	20,609	(16,441)	4,168