NALCOR ENERGY MARKETING CORPORATION
CONDENSED INTERIM FINANCIAL STATEMENTS
September 30, 2020
(Unaudited)

NALCOR ENERGY MARKETING CORPORATION
STATEMENT OF FINANCIAL POSITION
(Unaudited)

As at (thousands of Canadian dollars)	Notes	**September 30 2020**	December 31 2019
ASSETS			
Current assets			
Cash		**6,413**	5,539
Trade and other receivables	4	**1,250**	3,645
Prepayments		**361**	574
Derivative assets		**8,570**	9,470
Total current assets		**16,594**	19,228
Non-current assets			
Property, plant and equipment		**157**	156
Intangible assets		**9**	178
Long-term derivative assets		**168**	-
Total assets		**16,928**	19,562
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	5	**6,676**	5,298
Deferred liability	6	**7,523**	8,710
Total current liabilities		**14,199**	14,008
Non-current liabilities			
Employee future benefits		**1,124**	1,018
Total liabilities		**15,323**	15,026
Shareholder’s equity			
Share capital		**1**	1
Reserves		**(184)**	(184)
Retained earnings		**1,788**	4,719
Total equity		**1,605**	4,536
Total liabilities and equity		**16,928**	19,562

See accompanying notes

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

		Three months ended		Nine months ended	
For the period ended September 30 (thousands of Canadian dollars)	Notes	**2020**	2019	**2020**	2019
Energy sales		**11,830**	12,703	**22,497**	27,986
Transmission and market fees	7	**6,141**	6,212	**18,146**	19,076
Operating costs	8	**1,201**	1,255	**3,883**	4,007
Power purchased		**1,566**	1,608	**2,969**	5,172
Depreciation and amortization		**67**	65	**202**	200
Net finance expense (income)	9	**22**	(27)	**25**	(38)
Other expense	10	**232**	132	**203**	(1,693)
Expenses		**9,229**	9,245	**25,428**	26,724
Profit (loss) for the period		**2,601**	3,458	**(2,931)**	1,262
Other comprehensive income					
Total items that may or have been reclassified to profit:					
Net fair value loss on cash flow hedges		**-**	(34)	**-**	(27)
Reclassification adjustments related to:					
Cash flow hedges recognized in profit or loss		**-**	27	**-**	27
Other comprehensive loss for the period		**-**	(7)	**-**	-
Total comprehensive income (loss) for the period		**2,601**	3,451	**(2,931)**	1,262

See accompanying notes

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

(thousands of Canadian dollars)	**Share Capital**	**Employee Benefit Reserve**	**Retained Earnings**	**Total**
Balance at January 1, 2020	**1**	**(184)**	**4,719**	**4,536**
Loss for the period	**-**	**-**	**(2,931)**	**(2,931)**
Total comprehensive loss for the period	**-**	**-**	**(2,931)**	**(2,931)**
Balance at September 30, 2020	**1**	**(184)**	**1,788**	**1,605**
Balance at January 1, 2019	1	(99)	5,702	5,604
Profit for the period	-	-	1,262	1,262
Total comprehensive income for the period	-	-	1,262	1,262
Balance at September 30, 2019	1	(99)	6,964	6,866

NALCOR ENERGY MARKETING CORPORATION
STATEMENT OF CASH FLOWS
(Unaudited)

For the period ended September 30 (thousands of Canadian dollars)	Notes	**Three months ended 2020**	Three months ended 2019	**Nine months ended 2020**	Nine months ended 2019
Operating activities					
Profit (loss) for the period		**2,601**	3,458	**(2,931)**	1,262
Adjustments to reconcile profit (loss) to cash provided from operating activities					
Depreciation and amortization		**67**	65	**202**	200
Loss on disposal of property, plant and equipment		**-**	-	**2**	-
Employee benefits		**35**	32	**106**	94
Loss (gain) on power purchase agreement balances	11.2 (a)	**-**	47	**-**	(2,457)
Unrealized loss on other derivatives		**500**	455	**1,166**	1,266
Finance income	9	**(4)**	(37)	**(25)**	(91)
Finance expense	9	**26**	10	**50**	53
Other		**(1)**	-	**1**	-
		3,224	4,030	**(1,429)**	327
Changes in non-cash working capital balances	13	**1,976**	(109)	**3,986**	63
Interest received		**4**	37	**25**	91
Interest paid		**(26)**	(10)	**(50)**	(53)
Net cash provided from operating activities		**5,178**	3,948	**2,532**	428
Investing activities					
Additions to property, plant and equipment		**(27)**	(1)	**(27)**	(26)
Additions to intangible assets		**-**	-	**(9)**	-
Additions to financial transmission rights	11.2	**(449)**	(759)	**(1,622)**	(1,367)
Net cash used in investing activities		**(476)**	(760)	**(1,658)**	(1,393)
Net increase (decrease) in cash		**4,702**	3,188	**874**	(965)
Cash, beginning of the period		**1,711**	3,506	**5,539**	7,659
Cash, end of the period		**6,413**	6,694	**6,413**	6,694

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 manage Nalcor's participation in extra-provincial electricity markets. 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 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, 2019.

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 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 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 13, 2020.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the condensed interim 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. Significant accounting judgments, estimates and assumptions used in the preparation of the condensed interim financial statements are described in Energy Marketing's annual audited financial statements for the year ended December 31, 2019.

The World Health Organization declared the Coronavirus disease (COVID-19) outbreak a Public Health Emergency of International Concern on January 30, 2020 and a pandemic on March 11, 2020. In order to mitigate the spread of COVID-19 there have been global restrictions on travel, quarantines, self-isolation, social and physical distancing and forced closure of certain types of public places and non-essential businesses. These actions have caused and continue to cause some disruption to operations and economic uncertainty.

COVID-19 is an evolving situation that may have widespread implications for Energy Marketing's environment, operations and financial results. Management cannot reasonably estimate the duration and magnitude of the COVID-19 impact on the economy and future effect on Energy Marketing at this time.

4. TRADE AND OTHER RECEIVABLES

As at (thousands of Canadian dollars)	**September 30 2020**	December 31 2019
Trade receivables	**1,250**	3,055
Due from related parties	**-**	590
	1,250	3,645

5. TRADE AND OTHER PAYABLES

As at (thousands of Canadian dollars)	**September 30 2020**	December 31 2019
Trade payables and other accruals	**2,212**	1,366
Due to related parties	**4,464**	3,932
	6,676	5,298

6. DEFERRED LIABILITY

The deferred liability represents Energy Marketing's current liability related to its expected commitments for 2020 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 September 30, 2020, Management assessed the anticipated term of the contract and determined that a new derivative asset and corresponding deferred liability was required.

The new 2020 deferred liability is being amortized into income on a straight line basis over the assumed three month term of the contract. The components of change are as follows:

As at (thousands of Canadian dollars)	**September 30 2020**	December 31 2019
Deferred liability, beginning of the period	**8,710**	21,068
Additions	**15,432**	8,710
Amortization	**(16,619)**	(21,068)
Deferred liability, end of the period	**7,523**	8,710

7. TRANSMISSION AND MARKET FEES

	Three months ended		**Nine months ended**	
For the period ended September 30 (thousands of Canadian dollars)	**2020**	2019	**2020**	2019
Transmission rental	**5,886**	5,979	**17,631**	18,062
Market fees	**255**	233	**515**	1,014
	6,141	6,212	**18,146**	19,076

8. OPERATING COSTS

	Three months ended		**Nine months ended**	
For the period ended September 30 (thousands of Canadian dollars)	**2020**	2019	**2020**	2019
Salaries and benefits	**904**	850	**2,918**	2,687
Professional services	**133**	235	**424**	766
Cost recoveries	**116**	105	**366**	331
Other operating costs	**48**	65	**175**	223
	1,201	1,255	**3,883**	4,007

9. NET FINANCE EXPENSE (INCOME)

	Three months ended		Nine months ended	
For the period ended September 30 (thousands of Canadian dollars)	**2020**	2019	**2020**	2019
Finance income				
Bank interest	**(4)**	(37)	**(25)**	(91)
Finance expense				
Bank and interest charges	**26**	10	**50**	53
Net finance expense (income)	**22**	(27)	**25**	(38)

10. OTHER INCOME

		Three months ended		Nine months ended	
For the period ended September 30 (thousands of Canadian dollars)	Note	**2020**	2019	**2020**	2019
Mark-to-market of open market positions		**69**	27	**(1)**	35
Financial transmission rights loss and amortization		**49**	173	**430**	546
Realized foreign exchange loss (gain)		**123**	35	**(92)**	(33)
Unrealized foreign exchange (gain) loss		**(8)**	(93)	**(134)**	272
Net PPA loss (gain)	11.2 (a)	**-**	47	**-**	(2,457)
Realized gain on commodity swap settlements		**-**	(29)	**-**	(29)
Realized loss on foreign exchange forward contracts		**-**	56	**-**	56
Other		**(1)**	(84)	**-**	(83)
		232	132	**203**	(1,693)

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

11.1 Fair Value

The estimated fair values of financial instruments as at September 30, 2020 and December 31, 2019 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 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, 2020 and the year ended December 31, 2019.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
As at (thousands of Canadian dollars)		**September 30, 2020**		December 31, 2019	
Financial assets					
Derivative assets	**2,3**	**8,738**	**8,738**	9,470	9,470

The fair value of cash, 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 2020 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, 2020.

(thousands of Canadian dollars)	Carrying Value	Valuation Techniques	Significant Unobservable Input(s)	Range
Derivative asset (Financial transmission rights)	**1,210**	Modelled pricing	Price, seasonality and market factors	-19% to +13%
Derivative asset (Power purchase derivative asset)	**7,523**	Modelled pricing	Volumes (MWh)	24% to 33% 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, 2020, the effect of using reasonably possible alternative assumptions regarding the unobservable implied volatilities may have resulted in -$0.2 million to +$0.2 million 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 September 30, 2020, the effect of using reasonably possible alternative assumptions for volume inputs to valuation techniques may have resulted in -$0.1 million to +$0.7 million change in the carrying value of the power purchase derivative asset.

11.2 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 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 financial instruments used for hedging 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 financial instruments used for hedging. 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 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, 2020 (December 31, 2019 - $nil), however $2.3 million of the limit was used to issue four irrevocable letters of credit (December 31, 2019 - $1.9 million for three irrevocable letters of credit). In March 2020, Energy Marketing issued one irrevocable letter of credit to a bilateral counterparty totalling $0.4 million.

As at September 30, 2020, Nalcor, on behalf of Energy Marketing, has issued $8.0 million (December 31, 2019 - $8.0 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. One such letter in the amount of $0.1M was cancelled during the quarter as it was no longer required.

As at September 30, 2020, Nalcor, on behalf of Energy Marketing, has issued unconditional guarantees and sales contracts in the amount of $15.0 million (December 31, 2019 - $15.0 million), in order to guarantee amounts under power purchase and sale contracts with bilateral counterparties.

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.

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). For the period ended September 30, 2020, $0.2 million in realized gains (September 30, 2019 - $1.2 million in realized gains) related to these fair value differences were included in energy sales.

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, when high correlation exists between the hedged item and the hedging item. There were no hedges in place for the period ended September 30, 2020.

For the period ended September 30, 2020, total energy sales denominated in USD were $16.3 million USD (September 30, 2019 - $20.4 million USD).

During 2020, additional financial transmission rights with notional values of $1.6 million (September 30, 2019 - $1.4 million) were purchased to mitigate risk on congestion for the remainder of 2020, 2021 and 2022. As the rights have not been designated as hedging instruments, changes in fair value have been recorded in other (income) expense.

The components of change impacting the carrying value of derivative assets and liabilities for the period ended September 30, 2020 and 2019 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, 2020	**-**	**4**	**9,466**	**4**	**9,466**
Purchases	**-**	**-**	**1,622**	**-**	**1,622**
Additions	**-**	**-**	**15,432**	**-**	**15,432**
	-	**4**	**26,520**	**4**	**26,520**
Changes to profit (loss)					
Amortization	**-**	**-**	**(1,157)**	**-**	**(1,157)**
Mark-to-market	**-**	**1**	**337**	**1**	**337**
Settlements (a)	**-**	**-**	**(16,967)**	**-**	**(16,967)**
Total	**-**	**1**	**(17,787)**	**1**	**(17,787)**
Balance at September 30, 2020	**-**	**5**	**8,733**	**5**	**8,733**
Balance at January 1, 2019	-	15	21,891	15	21,891
Purchases	-	-	1,367	-	1,367
	-	15	23,258	15	23,258
Changes to profit (loss)					
Amortization	-	-	(1,078)	-	(1,078)
Mark-to-market	-	(34)	6,673	(34)	6,673
Settlements (a)	-	-	(20,171)	-	(20,171)
Total	-	(34)	(14,576)	(34)	(14,576)
Changes in other comprehensive income					
Mark-to-market	(27)	-	-	(27)	-
Settlements realized in loss	27	-	-	27	-
Balance at September 30, 2019	-	(19)	8,682	(19)	8,682

(a) Net changes in PPA fair value

	Three months ended		Nine months ended	
For the period ended September 30 (thousands of Canadian dollars)	**2020**	2019	**2020**	2019
PPA gain				
Amortization of deferral	**(7,909)**	(5,267)	**(16,619)**	(15,801)
Mark-to-market of derivative	**(348)**	(5,775)	**(348)**	(6,827)
	(8,257)	(11,042)	**(16,967)**	(22,628)
PPA loss				
Mark-to-market of derivative	**(2,004)**	-	**-**	-
Settlement of realized profit	**10,261**	11,089	**16,967**	20,171
	8,257	11,089	**16,967**	20,171
Net PPA loss (gain)	**-**	47	**-**	(2,457)

12. 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	Wholly-owned subsidiary of Nalcor
Churchill Falls (Labrador) Corporation Limited	Joint arrangement of Newfoundland and Labrador Hydro

(a) For the period ended September 30, 2020, Energy Marketing was charged $15.3 million (September 30, 2019 - $15.5 million) for the use of firm transmission rights and $3.0 million (September 30, 2019 - $3.3 million) for purchased power from Hydro, as agreed upon in the PPA between Energy Marketing and Hydro.

(b) For the period ended September 30, 2020, Energy Marketing was charged $145 thousand (September 30, 2019 - $115 thousand) by Nalcor for administrative and corporate services.

(c) For the period ended September 30, 2020, Energy Marketing was charged $153 thousand (September 30, 2019 - $142 thousand) by Hydro related to administrative services.

(d) For the period ended September 30, 2020, Energy Marketing was charged a net $548 thousand (September 30, 2019 - net $531 thousand) by Nalcor related to intercompany salaries and associated costs.

(e) For the period ended September 30, 2020, Energy Marketing was charged a net $32 thousand (September 30, 2019 - net $27 thousand) by Hydro related to intercompany salaries and associated costs.

(f) As at September 30, 2020, Energy Marketing has a net payable to Hydro of $4.2 million (December 31, 2019 - net payable of $3.2 million) primarily related to intercompany transmission rental and purchase and sale of power.

(g) As at September 30, 2020, Energy Marketing has a payable to Nalcor of $250 thousand (December 31, 2019 - $173 thousand).

13. SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended		Nine months ended	
For the period ended September 30 (thousands of Canadian dollars)	**2020**	2019	**2020**	2019
Trade and other receivables	**838**	(1,641)	**2,395**	(1,973)
Prepayments	**(56)**	59	**213**	395
Trade and other payables	**1,194**	1,473	**1,378**	1,641
Changes in non-cash working capital balances	**1,976**	(109)	**3,986**	63