NALCOR ENERGY MARKETING CORPORATION
FINANCIAL STATEMENTS
December 31, 2021

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Independent Auditor's Report

To the Shareholder of Nalcor Energy Marketing Corporation

Opinion

We have audited the financial statements of Nalcor Energy Marketing Corporation (the "Company"), which comprise the statement of financial position as at December 31, 2021, and the statements of profit and comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte LLP

Chartered Professional Accountants
March 21, 2022

NALCOR ENERGY MARKETING CORPORATION
STATEMENT OF FINANCIAL POSITION

As at December 31 (thousands of Canadian dollars)	Notes	**2021**	2020
ASSETS			
Current assets			
Cash		**15,321**	3,084
Trade and other receivables	5	**6,499**	1,349
Prepayments		**1,583**	833
Derivative assets	14	**58,780**	23,255
Total current assets		**82,183**	28,521
Non-current assets			
Property, plant and equipment	6	**210**	170
Intangible assets		**8**	9
Long-term derivative assets	14	**98**	70
Total assets		**82,499**	28,770
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		**5,312**	5,146
Derivative liabilities	14	**-**	3
Deferred liabilities	7	**55,655**	22,658
Total current liabilities		**60,967**	27,807
Non-current liabilities			
Employee future benefits	8	**1,032**	1,103
Total liabilities		**61,999**	28,910
Shareholder's equity (deficit)			
Share capital	9	**1**	1
Reserves		**(3)**	(159)
Retained earnings		**20,502**	18
Total equity (deficit)		**20,500**	(140)
Total liabilities and equity (deficit)		**82,499**	28,770

Commitments and contingencies (Note 16)
Subsequent event (Note 19)
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	**2021**	2020
Energy sales		**55,271**	29,349
Other revenue	10	**1,559**	4
Revenue		**56,830**	29,353
Transmission and market fees		**25,684**	24,214
Operating costs	11	**4,942**	5,182
Power purchased		**4,308**	3,651
Depreciation and amortization		**21**	209
Net finance expense	12	**46**	53
Other (income) expense	13	**(3,655)**	745
Expenses		**31,346**	34,054
Total profit (loss) for the year		**25,484**	(4,701)
Other comprehensive income			
Actuarial gain on employee future benefits	8	**156**	25
Other comprehensive income for the year		**156**	25
Total comprehensive income (loss) for the year		**25,640**	(4,676)

See accompanying notes

NALCOR ENERGY MARKETING CORPORATION
STATEMENT OF CHANGES IN EQUITY

(thousands of Canadian dollars)	Note	Share Capital	Employee Benefit Reserve	Retained Earnings (Deficit)	Total
Balance at January 1, 2021		**1**	**(159)**	**18**	**(140)**
Profit for the year		**-**	**-**	**25,484**	**25,484**
Other comprehensive gain	**8**	**-**	**156**	**-**	**156**
Total profit and comprehensive income for the year		**-**	**156**	**25,484**	**25,640**
Dividends paid	**9**	**-**	**-**	**(5,000)**	**(5,000)**
Balance at December 31, 2021		**1**	**(3)**	**20,502**	**20,500**
Balance at January 1, 2020		1	(184)	4,719	4,536
Loss for the year		-	-	(4,701)	(4,701)
Other comprehensive gain	8	-	25	-	25
Total comprehensive gain (loss) for the year		-	25	(4,701)	(4,676)
Balance at December 31, 2020		1	(159)	18	(140)

See accompanying note

NALCOR ENERGY MARKETING CORPORATION
STATEMENT OF CASH FLOWS

For the year ended December 31 (thousands of Canadian dollars)	Notes	**2021**	2020
Operating activities			
Profit (loss) for the year		**25,484**	(4,701)
Adjustments to reconcile profit (loss) to cash provided from (used in) operating activities:			
Depreciation and amortization		**21**	209
Unrealized loss on derivatives		**(2,122)**	1,674
Finance income	12	**(37)**	(29)
Finance expense	12	**83**	82
Other		**85**	110
		23,514	(2,655)
Changes in non-cash working capital balances	18	**(5,711)**	1,649
Interest received		**37**	29
Interest paid		**(83)**	(82)
Net cash provided from (used in) operating activities		**17,757**	(1,059)
Investing activities			
Additions to property, plant and equipment	6	**(60)**	(45)
Additions to intangible assets		**-**	(9)
Additions to financial transmission rights	14	**(437)**	(1,578)
Change in non-cash working capital balances	18	**(23)**	236
Net cash used in investing activities		**(520)**	(1,396)
Financing activity			
Dividends paid to Nalcor Energy	9	**(5,000)**	-
Net cash used in financing activity		**(5,000)**	-
Net increase (decrease) in cash		**12,237**	(2,455)
Cash, beginning of the year		**3,084**	5,539
Cash, end of the year		**15,321**	3,084

See accompanying notes

1. DESCRIPTION OF BUSINESS

Nalcor Energy Marketing Corporation (Energy Marketing) 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 Energy's (Nalcor) participation in extra-provincial electricity markets. Energy Marketing is a 100% owned subsidiary of 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 (financial statements) have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

These 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 financial statements are presented in Canadian Dollars (CAD) and all values rounded to the nearest thousand, except when otherwise noted. These financial statements were approved by Energy Marketing's Board of Directors (the Board) on March 2, 2022.

2.2 Cash

Cash and cash equivalents consist of amounts on deposit with Schedule 1 Canadian Chartered banks, as well as highly liquid investments with maturities of three months or less.

2.3 Property, Plant and Equipment

Items of property, plant and equipment are recognized 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 rates. All other repairs and maintenance costs are recognized in profit or loss as incurred. Depreciation of these assets commences when the assets are ready for their intended use. Residual values, useful lives and method of depreciation are reviewed at the end of each year and adjusted prospectively, if appropriate.

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

Computer hardware, furniture and equipment	5 to 50 years

2.4 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 *International Accounting Standard (IAS) 38 - Intangible Assets.*

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	10 years

2.5 Impairment of Non-Financial Assets

Property, plant and equipment and other non-financial assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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. The recoverable amount is the higher of fair value less costs of disposal and value in use. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from non-financial assets. 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.

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).

2.6 Employee Future Benefits

(i) <u>Pension Plan</u>

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) <u>Other Benefits</u>

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

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.

2.7 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.

2.8 Revenue Recognition

Revenue from Contracts with Customers

Energy Marketing recognizes revenue from the sale of energy, transmission, and energy scheduling services. Revenue is recognized when Energy Marketing satisfies its performance obligation and is determined when it transfers control of a product or service to the customer. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties.

2.9 Leasing

Lessee Accounting

Energy Marketing assesses whether a contract is or contains a lease, at inception of a contract. Energy Marketing recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets. For these leases, Energy Marketing recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, Energy Marketing uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed (and in-substance) lease payments, less any lease incentives;
- variable lease payments that depend on an index or rate; and
- payments expected under residual value guarantees and payments relating to purchase options and renewal option periods that are reasonably certain to be exercised (or periods subject to termination options that are not reasonably certain to be exercised).

The lease liability is subsequently measured at amortized cost using the effective interest rate method. Lease liabilities are remeasured, with a corresponding adjustment to the related right-of-use assets, when there is a change in variable lease payments arising from a change in an index or rate, or when Energy Marketing changes its assessment of whether purchase, renewal or termination options will be exercised.

Energy Marketing did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and accumulated impairment losses.

Whenever Energy Marketing incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under *IAS 37 - Provisions, Contingent Liabilities and Contingent Assets.* The costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the shorter period of the lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that Energy Marketing expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of the lease.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in operating costs in the period in which the event or condition that triggers those payments occurs.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. Energy Marketing has elected to apply this practical expedient.

2.10 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.

2.11 Income Taxes

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

2.12 Financial Instruments

<u>Classification and Initial Measurement</u>
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.

Financial assets are classified at amortized cost, fair value through other comprehensive income (FVTOCI), FVTPL or as derivatives designated as hedging instruments in an effective hedge. Financial liabilities are classified as financial liabilities designated at FVTPL, amortized cost or as derivatives designated as hedging instruments in an effective hedge. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

<u>Financial Assets at Amortized Cost</u>
Financial assets with contractual cash flows arising on specified dates, consisting solely of principal and interest, and that are held within a business model whose objective is to collect the contractual cash flows are subsequently measured at amortized cost using the effective interest rate method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Energy Marketing's financial assets at amortized cost include cash and trade and other receivables.

<u>Financial Assets at FVTOCI</u>
Financial assets measured at FVTOCI are those that have contractual cash flows arising on specific dates, consisting solely of principal and interest, and that are held within a business model whose objective is to collect the contractual cash flows and to sell the financial asset. Any change in the carrying amount of these assets other than foreign exchange gains and losses, impairment gains and losses and interest income are recognized in other comprehensive loss accumulated in the fair value reserve. When these assets are derecognized, the cumulative gains or losses previously recognized in other comprehensive loss are reclassified to profit or loss.

Energy Marketing does not hold any financial assets at FVTOCI.

<u>Financial assets at FVTPL</u>
Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI are measured at FVTPL. Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship.

Energy Marketing's financial assets measured at FVTPL include derivative instruments not part of a designated hedging relationship.

<u>Financial Liabilities at Amortized Cost</u>
Energy Marketing subsequently measures all financial liabilities at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the liability is derecognized.

Energy Marketing's financial liabilities at amortized cost include trade and other payables.

Financial liabilities at FVTPL
Financial liabilities that do not meet the criteria for being measured at amortized cost or FVTOCI are measured at FVTPL. Financial liabilities at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship.

Energy Marketing's financial liabilities measured at FVTPL include derivative instruments not part of a designated hedging relationship.

Derecognition of Financial Instruments
Energy Marketing derecognizes a financial asset 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 party.

Energy Marketing derecognizes financial liabilities when, and only when, its obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Impairment of Financial Assets
Energy Marketing recognizes a loss allowance for expected credit losses (ECL) on investments in debt instruments that are measured at amortized cost or at FVTOCI. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

Energy Marketing always recognizes lifetime ECL for trade and other receivables. The ECL on these financial assets are estimated based on Energy Marketing's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. Energy Marketing also records 12-month ECL for those financial assets which have low credit risk and where the low credit risk exemption has been applied. The financial asset that has been identified to have low credit risk is cash.

For all other financial instruments, Energy Marketing recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, Energy Marketing measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these 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. Actual results may differ materially 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.

In 2020, the outbreak of the Coronavirus disease (COVID-19) resulted in governments worldwide enacting emergency measures to combat the spread of the virus. For the year ended December 31, 2021, COVID-19 did not have a significant financial impact on the Energy Marketing's results of operations, financial position or cash flow. There continues to be uncertainty around the duration and magnitude of the pandemic and therefore the extent of any future effect on Energy Marketing is unknown at this time. Management will continue to assess the impact of COVID-19 on the Company's operations and financial results.

3.1 Use of Judgments

(i) 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) 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 the Energy Marketing – Newfoundland and Labrador Hydro (Hydro) power purchase agreement (PPA) and Corner Brook Pulp and Paper Limited (CBP&PL) term sheet 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 derivative asset upon initial recognition and the transaction price of the derivative asset, and to amortize the deferred liability on a straight-line basis over its effective term (Note 7). These methods, when compared with alternatives, were determined to more accurately reflect the nature and substance of the transactions.

The terms of the Energy Marketing – Hydro PPA require a 60 day termination notice by either party. Management's assumption is that the term of the PPA at December 31, 2021, will continue for at least the next 12 months.

The terms of the CBP&PL term sheet expects that the delivered energy will subsequently be returned to Energy Marketing from CBP&PL between July 1, 2021 and June 30, 2024. To date, no energy has been returned.

4. CURRENT AND FUTURE CHANGES IN ACCOUNTING POLICIES

The following is a list of standards/interpretations that have been issued and are effective for accounting periods commencing on or after January 1, 2023, as specified.

- *IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)*
- *IAS 1 – Presentation of Financial Statements– Disclosure of Accounting Policies (Amendments to IAS 1)*
- *IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates (Amendments to IAS 8)*

4.1 IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

The IASB issued amendments to IAS 1 to promote consistency in applying the requirements by helping companies determine whether, in the Statement of Financial Position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The classification is based on rights that are in existence at the end of the reporting period and specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. The amendments are applied retrospectively upon adoption. Management is currently assessing the amendments and any potential impact on Energy Marketing's financial statements.

4.2 IAS 1 – Presentation of Financial Statements– Disclosure of Accounting Policies (Amendments to IAS 1)

The IASB issued amendments to IAS 1, which change the requirements with regard to the disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The application of these amendments is not expected to have an impact on Energy Marketing's financial statements.

4.3 IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates (Amendments to IAS 8)

The IASB issued amendments to IAS 8 to clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. The amendments are intended to improve the understanding of the existing requirements and therefore are not expected to have an impact on Energy Marketing's financial statements.

5. TRADE AND OTHER RECEIVABLES

As at December 31 (thousands of Canadian dollars)	**2021**	2020
Trade receivables	**2,954**	1,250
Due from related parties	**3,545**	99
	6,499	1,349

As at December 31 (thousands of Canadian dollars)	**2021**	2020
0-60 days	**6,345**	1,331
60+ days	**154**	18
	6,499	1,349

6. PROPERTY, PLANT AND EQUIPMENT

(thousands of Canadian dollars)	Computer Hardware and Furniture
Cost	
Balance at January 1, 2020	282
Additions	45
Disposals	(13)
Balance at December 31, 2020	314
Additions	**60**
Balance at December 31, 2021	**374**
Depreciation	
Balance at January 1, 2020	126
Depreciation	31
Disposals	(13)
Balance at December 31, 2020	144
Depreciation	**20**
Balance at December 31, 2021	**164**
Carrying value	
Balance at January 1, 2020	156
Balance at December 31, 2020	170
Balance at December 31, 2021	**210**

7. DEFERRED LIABILITIES

As at December 31 (thousands of Canadian dollars)	**2021**	2020
Deferred liabilities, beginning of the year	**22,658**	8,710
Additions	**64,090**	38,090
Amortization	**(31,093)**	(24,142)
Deferred liability, end of the year	**55,655**	22,658

7.1 Energy Marketing – Hydro PPA

The deferred liability associated with the Energy Marketing – Hydro PPA represents Energy Marketing's current liability related to its expected commitments for 2022 under the PPA with 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, 2021, Management assessed the anticipated term of the contract and determined that it should be extended and a new derivative asset and corresponding deferred liability was required. This resulted in a deferred liability addition of $3.9 million for October and November 2021. At August 31, 2021, it was determined the anticipated term of the contract should be extended to December 31, 2021. An addition to the deferred liability was recognized, in the amount of $3.2 million. These additions were amortized into income on a straight-line basis over the extended term of the PPA.

In December 2021, Management assessed the anticipated contract term and determined that a new deferred liability and derivative asset were required. This resulted in a deferred liability addition of $55.6 million to be amortized into income on a straight-line basis over the assumed 12 month term, commencing on January 1, 2022. The components of change are as follows:

As at December 31 (thousands of Canadian dollars)	**2021**	2020
Deferred liability, beginning of the year	**22,658**	8,710
Additions	**62,715**	38,090
Amortization	**(29,718)**	(24,142)
Deferred liability, end of the year	**55,655**	22,658
Current portion of deferred liability	**55,655**	22,658
Long-term portion of deferred liability	**-**	-

7.2 CBP&PL Term Sheet

Starting April 2, 2021, Energy Marketing began delivering commissioning period residual block Muskrat Falls energy to CBP&PL in accordance with the CBP&PL term sheet and related Order in Council issued by the Province. The purpose of the term sheet was to support CBP&PL operations and enable Grand Lake reservoir storage levels to recover.

During the second quarter, Energy Marketing delivered 52 GWh to CBP&PL. This energy, plus losses, will subsequently be returned to Energy Marketing for market export between July 1, 2021 and June 30, 2024 and represents a derivative asset and corresponding deferred liability recorded at fair value. Therefore the total amount includes both a current and long-term portion of derivative assets and liabilities.

On September 28, 2021, an amendment was made to the existing term sheet to deliver additional energy to CBP&PL, if available. As at December 31, 2021, no additional energy has been made available and no energy has been returned to Energy Marketing.

At December 31, 2021, Management assessed the return of energy from CBP&PL and determined that energy returned would not be retained by Energy Marketing.

As at December 31 (thousands of Canadian dollars)	**2021**	2020
Deferred liability, beginning of the year	**-**	-
Additions	**1,375**	-
Amortization	**(1,375)**	-
Deferred liability, end of the year	**-**	-

8. EMPLOYEE FUTURE BENEFITS

8.1 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, 2021 of $238,367 (2020 - $250,140) were expensed as incurred.

8.2 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 retirement allowance. There were no cash payments to beneficiaries for its unfunded other employee benefits during 2021 or 2020. An actuarial valuation was performed as at December 31, 2021.

As at December 31 (thousands of Canadian dollars)	**2021**	2020
Accrued benefit obligation, beginning of the year	**1,103**	1,018
Current service cost	**106**	105
Interest cost	**32**	36
Actuarial gain	**(156)**	(25)
Transfers	**(53)**	(31)
Accrued benefit obligation, end of the year	**1,032**	1,103

For the year ended December 31 (thousands of Canadian dollars)	**2021**	2020
Component of benefit cost		
Current service cost	**106**	105
Interest cost	**32**	36
Total benefit expense for the year	**138**	141

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

	2021	2020
Discount rate - benefit cost	**2.70%**	3.20%
Discount rate - accrued benefit obligation	**3.35%**	2.70%
Rate of compensation increase	**3.50%**	3.50%

Assumed healthcare trend rates:

	2021	2020
Initial healthcare expense trend rate	**5.53%**	5.64%
Cost trend decline to	**3.60%**	3.60%
Current rate 5.53%, reducing linearly to 3.6% in 2040 and thereafter		

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

Increase (thousands of Canadian dollars)	**2021**	2020
Current service and interest cost	**40**	38
Accrued benefit obligation	**216**	251

Decrease (thousands of Canadian dollars)	**2021**	2020
Current service and interest cost	**(26)**	(26)
Accrued benefit obligation	**(151)**	(174)

9. SHAREHOLDER'S EQUITY

9.1 Share capital

As at December 31 (thousands of Canadian dollars)	**2021**	2020
Share capital		
Authorized - unlimited common shares		
Issued and outstanding - 100	**1**	1

9.2 Dividends

For the year ended December 31 (thousands of Canadian dollars)	**2021**	2020
Declared and paid during the year	**5,000**	-

10. OTHER REVENUE

For the year ended December 31 (thousands of Canadian dollars)	**2021**	2020
Transmission	**1,433**	-
Scheduling	**126**	-
Other	**-**	4
	1,559	4

11. OPERATING COSTS

For the year ended December 31 (thousands of Canadian dollars)	**2021**	2020
Salaries and benefits	**3,751**	4,021
Professional services	**580**	549
Cost recoveries	**440**	445
Other operating costs	**171**	167
	4,942	5,182

12. NET FINANCE EXPENSE

For the year ended December 31 (thousands of Canadian dollars)	**2021**	2020
Finance income		
Bank interest	**37**	29
Finance expense		
Bank and interest charges	**83**	82
Net finance expense	**46**	53

13. OTHER (INCOME) EXPENSE

For the year ended December 31 (thousands of Canadian dollars)	**2021**	2020
Realized foreign exchange (gain) loss	**(321)**	50
Financial transmission rights income and amortization	**(679)**	721
Unrealized foreign exchange gain	**(2)**	(35)
Mark-to-market of open market positions	**(2,653)**	7
Other	**-**	2
	(3,655)	745

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

14.1 Fair Value

The estimated fair values of financial instruments as at December 31, 2021 and December 31, 2020 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 years ended December 31, 2021 and December 31, 2020.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
As at (thousands of Canadian dollars)		**December 31, 2021**		December 31, 2020	
Financial assets					
Derivative assets	**2,3**	**58,780**	**58,780**	23,255	23,255
Long-term derivative assets	**3**	**98**	**98**	70	70
Financial liabilities					
Derivative liabilities	**2**	**-**	**-**	3	3

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 2022 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, 2021.

(thousands of Canadian dollars)	Carrying Value	Valuation Techniques	Significant Unobservable Input(s)	Range
Derivative asset (Financial transmission rights)	**573**	Modelled pricing	Price, seasonality and market factors	+9% to +57%
Derivative asset (Power purchase derivative asset)	**55,655**	Modelled pricing	Volumes (MWh)	27% to 34% 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, 2021, the effect of using reasonably possible alternative assumptions regarding the unobservable implied volatilities may have resulted in $0.6 million to $0.9 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 December 31, 2021, the effect of using reasonably possible alternative assumptions for volume inputs to valuation techniques may have resulted in -$0.4 million to +$3.4 million change in the carrying value of the power purchase derivative asset.

14.2 Risk Management

Energy Marketing is exposed to certain credit, liquidity and market 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 December 31, 2021 (December 31, 2020 - $nil), however $6.4 million CAD equivalent of the limit was used to issue six irrevocable letters of credit (December 31, 2020 - $3.0 million CAD equivalent for four irrevocable letters of credit). During the year two additional letters of credit were issued, the first to a bilateral counterparty and the second to an independent system operator, which had a previous letter of credit originally issued through Nalcor on Energy Marketing's behalf.

The following are the contractual maturities of Energy Marketing's financial liabilities, including principal and interest, as at December 31, 2021.

(thousands of Canadian dollars)	< 1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	5,312	-	-	-	5,312

As at December 31, 2021, Nalcor, on behalf of Energy Marketing, has issued $5.9 million CAD equivalent (December 31, 2020 - $7.8 million CAD equivalent) 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.

As at December 31, 2021, Nalcor, on behalf of Energy Marketing, has issued unconditional guarantees and sales contracts in the amount of $20.7 million CAD equivalent (December 31, 2020 - $15.0 million CAD), 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 year ended December 31, 2021, $0.7 million in realized gains (December 31, 2020 - $14 thousand in realized losses) 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 year ended December 31, 2021.

As at December 31, 2021, trade and other receivables included balances of $6.3 million (2020 - $0.7 million) denominated in USD. As at December 31, 2021, trade and other payables included balances of $1.0 million (2020 - $0.4 million) denominated in USD. Energy Marketing does not have significant exposure to fluctuations in foreign exchange with respect to its trade and other receivables and trade and other payables.

For the year ended December 31, 2021, total energy sales denominated in USD were $39.5 million USD (2020 - $21.0 million USD).

During 2021, additional financial transmission rights with notional values of $0.5 million (2020 - $1.6 million) were purchased to mitigate risk on congestion for the remainder of 2021, 2022 and a portion of 2023. As the rights have not been designated as hedging instruments, changes in fair value have been recorded in other expense.

The components of change impacting the carrying value of derivative assets and liabilities for the year ended December 31, 2021 and 2020 are as follows:

(thousands of Canadian dollars)	Level II	Level III
Balance at January 1, 2021	**(3)**	**23,325**
Net Purchases	**-**	**437**
Additions	**1,375**	**62,715**
	1,372	**86,477**
Changes to profit (loss)		
Amortization	**-**	**(1,008)**
Mark-to-market	**1,278**	**21,564**
Settlements (a)	**-**	**(50,805)**
Total	**1,278**	**(30,249)**
Balance at December 31, 2021	**2,650**	**56,228**
Balance at January 1, 2020	4	9,466
Purchases	-	1,578
Additions	-	38,090
	4	49,134
Changes to profit (loss)		
Amortization	-	(1,473)
Mark-to-market	(7)	(1,200)
Settlements (a)	-	(23,136)
Total	(7)	(25,809)
Balance at December 31, 2020	(3)	23,325

(a) Net changes in Energy Marketing – Hydro PPA and CBP&PL PPA fair value

For the year ended December 31 (thousands of Canadian dollars)	**2021**	2020
PPA gains		
Amortization of deferral	**(31,093)**	(24,142)
Mark-to-market of derivative	**(19,712)**	-
	(50,805)	(24,142)
PPA losses		
Mark-to-market of derivative	**-**	1,006
Settlement of realized profit	**50,805**	23,136
	50,805	24,142
Net PPA gains	**-**	-

15. 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
Muskrat Falls Corporation	Wholly-owned subsidiary of Nalcor

As at December 31 (thousands of Canadian dollars)	Related party	**2021**	2020
Trade and other receivables:			
Sale/purchase of energy, transmission rental and related costs	Hydro	**2,667**	99
Transmission rental and related costs	Muskrat Falls	**878**	-
Prepayments:			
Transmission rental and related deposits	Hydro	**910**	179
Trade and other payables:			
Transmission rental, power purchased, administrative and related costs	Hydro	**3,663**	3,720
Energy sales, transmission rental and related costs	Muskrat Falls	-	108
Administrative and related costs	Nalcor	**214**	200

For the year ended December 31 (thousands of Canadian dollars)	Related party	**2021**	2020
Other revenue:			
Scheduling fee	Muskrat Falls	**126**	4
Transmission rental	Muskrat Falls	**1,031**	-
Transmission rental and market fees:			
Transmission rental – Hydro-Québec	Hydro	**20,499**	20,411
Transmission rental – Newfoundland Labrador System Operator	Hydro	**1,863**	118
Operating costs:			
Administrative services expense	Nalcor	**858**	935
Administrative services expense	Hydro	**242**	217
Power purchased:			
Power purchased under Energy Marketing – Hydro PPA	Hydro	**4,266**	3,624
Dividends:			
Dividends declared and paid	Nalcor	**5,000**	-

16. COMMITMENTS AND CONTINGENCIES

(a) Under the terms of the PPA with Hydro, Energy Marketing has committed to purchase available recapture energy and reimburse Hydro for transmission service during 2022. The estimated commitment is approximately $2.6 million (2020 - $2.0 million) for Recapture power purchases and $19.7 million (2020 - $13.9 million) related to reimbursements for transmission service rights.

(b) Energy Marketing has commitments for third party transmission rights as well as operational commitments totaling $8.0 million as at December 31, 2021 (2020 - $10.6 million).

17. 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, 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.

18. SUPPLEMENTARY CASH FLOW INFORMATION

For the year ended December 31 (thousands of Canadian dollars)	**2021**	2020
Trade and other receivables	**(5,150)**	2,296
Prepayments	**(750)**	(259)
Trade and other payables	**166**	(152)
Changes in non-cash working capital balances	**(5,734)**	1,885
Related to:		
Operating activities	**(5,711)**	1,649
Investing activities	**(23)**	236
	(5,734)	1,885

19. SUBSEQUENT EVENT

During February an amendment was made to suspend the existing terms of the Energy Marketing – Hydro PPA until April 30, 2022.