NALCOR ENERGY MARKETING CORPORATION
CONDENSED INTERIM FINANCIAL STATEMENTS
June 30, 2022
(Unaudited)

NALCOR ENERGY MARKETING CORPORATION
STATEMENT OF FINANCIAL POSITION
(Unaudited)

As at (thousands of Canadian dollars)	Notes	**June 30 2022**	December 31 2021
ASSETS			
Current assets			
Cash		**12,275**	15,321
Trade and other receivables	3	**17,530**	6,499
Prepayments		**1,727**	1,583
Derivative assets	9	**57,402**	58,780
Total current assets		**88,934**	82,183
Non-current assets			
Property, plant and equipment		**196**	210
Intangible assets		**7**	8
Long-term derivative assets	9	**11**	98
Total assets		**89,148**	82,499
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		**6,342**	5,312
Derivative liabilities	9	**1,734**	-
Deferred liabilities	4	**27,828**	55,655
Total current liabilities		**35,904**	60,967
Non-current liabilities			
Employee future benefits		**1,094**	1,032
Total liabilities		**36,998**	61,999
Shareholder's equity			
Share capital		**1**	1
Reserves		**(3)**	(3)
Retained earnings		**52,152**	20,502
Total equity		**52,150**	20,500
Total liabilities and equity		**89,148**	82,499

See accompanying notes

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

For the period ended June 30 (thousands of Canadian dollars)	Notes	Three months ended **2022**	2021	Six months ended **2022**	2021
Energy sales		**26,174**	8,920	**37,603**	17,018
Other revenue		**1,169**	453	**5,433**	466
Revenue		**27,343**	9,373	**43,036**	17,484
Transmission and market fees		**5,088**	6,440	**7,971**	12,521
Operating costs	6	**1,301**	1,287	**2,521**	2,490
Power purchased		**5,993**	1,301	**7,065**	1,805
Depreciation and amortization		**8**	5	**16**	11
Net finance (income) expense	7	**(42)**	9	**(55)**	14
Other income	8	**(9,929)**	(5,061)	**(25,132)**	(7,446)
Expenses		**2,419**	3,981	**(7,614)**	9,395
Total profit and comprehensive income for the period		**24,924**	5,392	**50,650**	8,089

See accompanying notes

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

(thousands of Canadian dollars)	Note	Share Capital	Employee Benefit Reserve	Retained Earnings	Total
Balance at January 1, 2022		**1**	**(3)**	**20,502**	**20,500**
Profit for the period		**-**	**-**	**50,650**	**50,650**
Total profit and comprehensive income for the period		**-**	**-**	**50,650**	**50,650**
Dividends paid	**5**	**-**	**-**	**(19,000)**	**(19,000)**
Balance at June 30, 2022		**1**	**(3)**	**52,152**	**52,150**
Balance at January 1, 2021		1	(159)	18	(140)
Profit for the period		-	-	8,089	8,089
Related party transaction		-	-	225	225
Total profit and comprehensive income for the period		-	-	8,314	8,314
Balance at June 30, 2021		1	(159)	8,332	8,174

See accompanying note

NALCOR ENERGY MARKETING CORPORATION
STATEMENT OF CASH FLOWS
(Unaudited)

For the period ended June 30 (thousands of Canadian dollars)	Notes	**Three months ended** **2022**	2021	**Six months ended** **2022**	2021
Operating activities					
Profit for the period		**24,924**	5,392	**50,650**	8,089
Adjustments to reconcile profit to cash provided from operating activities					
Depreciation and amortization		**8**	5	**16**	11
Gain on power purchase agreement balances	9	**(11,433)**	(4,613)	**(28,972)**	(7,117)
Unrealized loss (gain) on other derivatives		**2,399**	(32)	**4,924**	51
Finance income	7	**(51)**	(2)	**(81)**	(5)
Finance expense	7	**9**	11	**26**	19
Other		**33**	258	**64**	293
		15,889	1,019	**26,627**	1,341
Changes in non-cash working capital balances	11	**(17,078)**	(622)	**(10,368)**	(278)
Interest received		**51**	2	**81**	5
Interest paid		**(9)**	(11)	**(26)**	(19)
Net cash (used in) provided from operating activities		**(1,147)**	388	**16,314**	1,049
Investing activities					
Additions to property, plant and equipment		**(2)**	(3)	**(2)**	(3)
Additions to financial transmission rights	9	**(173)**	(39)	**(581)**	(432)
Changes in non-cash working capital balances	11	**-**	(448)	**223**	(236)
Net cash used in investing activities		**(175)**	(490)	**(360)**	(671)
Financing activity					
Dividends paid	5	**(7,000)**	-	**(19,000)**	-
Net cash used in financing activity		**(7,000)**	-	**(19,000)**	-
Net (decrease) increase in cash		**(8,322)**	(102)	**(3,046)**	378
Cash, beginning of the period		**20,597**	3,564	**15,321**	3,084
Cash, end of the period		**12,275**	3,462	**12,275**	3,462

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

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, 2021.

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 has delegated authority to approve the condensed interim financial statements to the Audit Committee of the Board of Directors of Nalcor, which approved the condensed interim financial statements on August 15, 2022.

3. TRADE AND OTHER RECEIVABLES

As at (thousands of Canadian dollars)	**June 30 2022**	December 31 2021
Trade receivables	**7,531**	2,954
Due from related parties	**9,999**	3,545
	17,530	6,499

As at (thousands of Canadian dollars)	**June 30 2022**	December 31 2021
0-60 days	**9,476**	6,345
60+ days	**8,054**	154
	17,530	6,499

4. DEFERRED LIABILITIES

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.

As at (thousands of Canadian dollars)	**June 30 2022**	December 31 2021
Deferred liabilities, beginning of the period	**55,655**	22,658
Additions	**-**	64,090
Amortization	**(27,827)**	(31,093)
Deferred liability, end of the period	**27,828**	55,655

5. DIVIDENDS

	Three months ended		**Six months ended**	
For the period ended June 30 (thousands of Canadian dollars)	**2022**	2021	**2022**	2021
Declared and paid during the period	**7,000**	-	**19,000**	-

6. OPERATING COSTS

	Three months ended		**Six months ended**	
For the period ended June 30 (thousands of Canadian dollars)	**2022**	2021	**2022**	2021
Salaries and benefits	**985**	992	**1,903**	1,911
Professional services	**132**	156	**271**	290
Other operating costs	**184**	139	**347**	289
	1,301	1,287	**2,521**	2,490

7. NET FINANCE (INCOME) EXPENSE

	Three months ended		**Six months ended**	
For the period ended June 30 (thousands of Canadian dollars)	**2022**	2021	**2022**	2021
Finance income				
Bank interest	**51**	2	**81**	5
Finance expense				
Bank and interest charges	**9**	11	**26**	19
Net finance (income) expense	**(42)**	9	**(55)**	14

8. OTHER INCOME

For the period ended June 30 (thousands of Canadian dollars)	Notes	Three months ended **2022**	2021	Six months ended **2022**	2021
Net PPA gains	9.2a	**(11,433)**	(4,613)	**(28,972)**	(7,117)
Mark-to-market of open market positions		**2,160**	(36)	**4,351**	(42)
Financial transmission rights gain and amortization		**(545)**	(381)	**(329)**	(340)
Realized foreign exchange (gain) loss		**(219)**	(6)	**(214)**	60
Unrealized foreign exchange loss (gain)		**108**	(25)	**32**	(8)
Other		**-**	-	**-**	1
		(9,929)	(5,061)	**(25,132)**	(7,446)

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

9.1 Fair Value

The estimated fair values of financial instruments as at June 30, 2022 and December 31, 2021 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 June 30, 2022 and the year ended December 31, 2021.

As at (thousands of Canadian dollars)	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
			June 30, 2022		December 31, 2021
Financial assets					
Derivative assets	**2,3**	**57,402**	**57,402**	58,780	58,780
Long-term derivative assets	**3**	**11**	**11**	98	98
Financial liabilities					
Derivative liabilities	**2**	**1,734**	**1,734**	-	-

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 Energy Marketing's 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 June 30, 2022.

(thousands of Canadian dollars)	Carrying Value	Valuation Techniques	Significant Unobservable Input(s)	Range
Derivative asset (Financial transmission rights)	**581**	Modelled pricing	Price, seasonality and market factors	-38% to 67%
Derivative asset (Power purchase derivative asset)	**56,799**	Modelled pricing	Volumes (MWh)	36% to 42% 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 June 30, 2022, the effect of using reasonably possible alternative assumptions regarding the unobservable implied volatilities may have resulted in -$0.2 million to +$0.4 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 certain forward market prices and related volumes are not readily determinable to estimate a portion of the fair value of the derivative asset. Hence, fair value measurement of this instrument is based upon a combination of internal and external pricing and volume estimates. As at June 30, 2022, the effect of using reasonably possible alternative assumptions for volume inputs to valuation techniques may have resulted in -$0.3 million to +$2.9 million change in the carrying value of the power purchase derivative asset.

9.2 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).

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 June 30, 2022 (December 31, 2021 - $nil), however $6.5 million CAD equivalent of the limit was used to issue six irrevocable letters of credit (December 31, 2021 - $6.4 million CAD equivalent for six irrevocable letters of credit).

As at June 30, 2022, Nalcor, on behalf of Energy Marketing, has issued $5.9 million CAD equivalent (December 31, 2021 - $5.9 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 June 30, 2022, Nalcor, on behalf of Energy Marketing, has issued unconditional guarantees and sales contracts in the amount of $22.3 million CAD equivalent (December 31, 2021 - $20.7 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 and Comprehensive Income. For the period ended June 30, 2022, $0.8 million in realized gains (June 30, 2021 - $0.2 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 June 30, 2022.

For the period ended June 30, 2022, total energy sales denominated in USD were $27.6 million USD (June 30, 2021 - $12.1 million USD).

During 2022, additional financial transmission rights with notional values of $0.6 million (June 30, 2021 - $0.4 million) were purchased to mitigate risk on congestion for the remainder of 2022, 2023 and a portion of 2024. As the rights have not been designated as hedging instruments, changes in fair value have been recorded in other income.

The components of change impacting the carrying value of derivative assets and liabilities for the period ended June 30, 2022 and 2021 are as follows:

	Total	
(thousands of Canadian dollars)	**Level II**	**Level III**
Balance at January 1, 2022	**2,650**	**56,228**
Net purchases	**-**	**581**
	2,650	**56,809**
Changes to profit (loss)		
Amortization	**-**	**(376)**
Mark-to-market	**(4,351)**	**29,960**
Settlements (a)	**-**	**(29,013)**
Total	**(4,351)**	**571**
Balance at June 30, 2022	**(1,701)**	**57,380**
Balance at January 1, 2021	(3)	23,325
Net Purchases	-	432
Additions	1,375	3,859
	1,372	27,616
Changes to profit (loss)		
Amortization	-	(571)
Mark-to-market	42	7,898
Settlements (a)	-	(15,407)
Total	42	(8,080)
Balance at June 30, 2021	1,414	19,536

(a) Net changes in Energy Marketing – Hydro PPA

For the period ended June 30 (thousands of Canadian dollars)	**Three months ended** **2022**	2021	**Six months ended** **2022**	2021
PPA gain				
Amortization of deferral	**(9,277)**	(7,553)	**(27,827)**	(15,105)
Mark-to-market of derivative	**(21,759)**	(4,894)	**(30,158)**	(7,419)
	(31,036)	(12,447)	**(57,985)**	(22,524)
PPA loss				
Settlement of realized profit	**19,603**	7,834	**29,013**	15,407
	19,603	7,834	**29,013**	15,407
Net PPA gain	**(11,433)**	(4,613)	**(28,972)**	(7,117)

10. RELATED PARTY TRANSACTIONS

Energy Marketing enters into various transactions with its shareholder and other affiliates. Unless otherwise noted, 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. Outstanding balances due to or from related parties are non-interest bearing with settlement within 30 days, unless otherwise stated.

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

Significant related party transactions, which are not otherwise disclosed separately in the interim financial statements, are summarized below:

As at (thousands of Canadian dollars)	**June 30** **2022**	December 31 2021
Trade and other receivables:		
Other related parties	**9,999**	3,545
Prepayments:		
Other related parties	**1,357**	910
Trade and other payables:		
Other related parties	**5,196**	3,663
Parent	**126**	214

For the period ended June 30 (thousands of Canadian dollars)	**Three months ended** **2022**	2021	**Six months ended** **2022**	2021
Other revenue:				
Other related parties	**229**	-	**4,492**	-
Transmission rental and market fees:				
Other related parties	**1,276**	5,025	**6,205**	10,183
Operating costs:				
Parent	**224**	241	**412**	452
Other related parties	**46**	46	**100**	98
Power purchased:				
Other related parties	**5,991**	1,303	**6,174**	1,788

11. SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended		Six months ended	
For the period ended June 30 (thousands of Canadian dollars)	**2022**	2021	**2022**	2021
Trade and other receivables	**(5,521)**	(2,196)	**(11,031)**	(1,583)
Prepayments	**(15)**	519	**(144)**	318
Trade and other payables	**(11,542)**	607	**1,030**	751
Changes in non-cash working capital balances	**(17,078)**	(1,070)	**(10,145)**	(514)
Operating activities	**(17,078)**	(622)	**(10,368)**	(278)
Investing activities	**-**	(448)	**223**	(236)
	(17,078)	(1,070)	**(10,145)**	(514)