NALCOR ENERGY MARKETING CORPORATION
CONDENSED INTERIM FINANCIAL STATEMENTS
March 31, 2023
(Unaudited)

NALCOR ENERGY MARKETING CORPORATION
STATEMENT OF FINANCIAL POSITION
(Unaudited)

As at (thousands of Canadian dollars)	Notes	**March 31 2023**	December 31 2022
ASSETS			
Current assets			
Cash		**18,016**	25,741
Trade and other receivables	3	**15,062**	19,705
Prepayments		**1,868**	2,054
Derivative assets	10	**60,307**	88,661
Total current assets		**95,253**	136,161
Non-current assets			
Property, plant and equipment		**177**	183
Intangible assets		**7**	7
Long-term derivative assets	10	**16**	13
Total assets		**95,453**	136,364
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		**8,193**	9,247
Derivative liabilities		**49**	-
Deferred liability	4	**64,267**	85,689
Total current liabilities		**72,509**	94,936
Non-current liabilities			
Employee future benefits		**589**	665
Total liabilities		**73,098**	95,601
Shareholder’s equity			
Share capital		**1**	1
Reserves		**530**	530
Retained earnings		**21,824**	40,232
Total equity		**22,355**	40,763
Total liabilities and equity		**95,453**	136,364

See accompanying notes

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

For the period ended March 31 (thousands of Canadian dollars)	Notes	**Three months ended 2023**	2022
Energy sales		**18,971**	11,429
Other revenue	6	**-**	4,264
Revenue		**18,971**	15,693
Transmission rental and market fees		**9,176**	2,883
Operating costs	7	**1,270**	1,220
Power purchased	11	**6,249**	1,072
Depreciation and amortization		**8**	8
Net finance income	8	**(344)**	(13)
Other expense (income)	9	**7,020**	(15,203)
Expenses		**23,379**	(10,033)
Total (loss) profit and comprehensive (loss) income for the period		**(4,408)**	25,726

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, 2023		**1**	**530**	**40,232**	**40,763**
Loss for the period		**-**	**-**	**(4,408)**	**(4,408)**
Total loss and comprehensive loss for the period		**-**	**-**	**(4,408)**	**(4,408)**
Dividends	**5**	**-**	**-**	**(14,000)**	**(14,000)**
Balance at March 31, 2023		**1**	**530**	**21,824**	**22,355**
Balance at January 1, 2022		1	(3)	20,502	20,500
Profit for the period		-	-	25,726	25,726
Total profit and comprehensive income for the period		-	-	25,726	25,726
Dividends	5	-	-	(12,000)	(12,000)
Balance at March 31, 2022		1	(3)	34,228	34,226

See accompanying notes

NALCOR ENERGY MARKETING CORPORATION
STATEMENT OF CASH FLOWS
(Unaudited)

For the period ended March 31 (thousands of Canadian dollars)	Notes	**Three months ended** **2023**	2022
Operating activities			
(Loss) profit for the period		**(4,408)**	25,726
Adjustments to reconcile (loss) profit to cash provided from operating activities:			
Depreciation and amortization		**8**	8
Loss (gain) on power purchase agreement balances	10.2	**6,071**	(17,539)
Unrealized loss on derivatives		**1,079**	2,525
Finance income	8	**(360)**	(30)
Finance expense	8	**16**	17
Other		**(76)**	31
		2,330	10,738
Changes in non-cash working capital balances	12	**3,617**	6,710
Interest received		**360**	30
Interest paid		**(16)**	(17)
Net cash provided from operating activities		**6,291**	17,461
Investing activities			
Additions to property, plant and equipment		**(2)**	-
Additions to financial transmission rights	10	**(172)**	(408)
Change in non-cash working capital balances	12	**158**	223
Net cash used in investing activities		**(16)**	(185)
Financing activity			
Dividends paid	5	**(14,000)**	(12,000)
Net cash used in financing activity		**(14,000)**	(12,000)
Net (decrease) increase in cash		**(7,725)**	5,276
Cash, beginning of the period		**25,741**	15,321
Cash, end of the period		**18,016**	20,597

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, 2022.

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 May 15, 2023.

3. TRADE AND OTHER RECEIVABLES

As at (thousands of Canadian dollars)	**March 31 2023**	December 31 2022
Trade receivables	**2,964**	8,442
Due from related parties	**12,098**	11,263
	15,062	19,705

As at (thousands of Canadian dollars)	**March 31 2023**	December 31 2022
0-60 days	**4,873**	9,217
60+ days	**10,189**	10,488
	15,062	19,705

4. DEFERRED LIABILITY

The deferred liability associated with the Energy Marketing – Hydro PPA represents Energy Marketing's current liability related to its expected commitments for 2023 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)	**March 31 2023**	December 31 2022
Deferred liability, beginning of the period	**85,689**	55,655
Additions	**-**	85,689
Amortization	**(21,422)**	(55,655)
Deferred liability, end of the period	**64,267**	85,689

5. DIVIDENDS

For the period ended March 31 (thousands of Canadian dollars)	**Three months ended** **2023**	2022
Declared and paid during the period	**14,000**	12,000

6. OTHER REVENUE

For the period ended March 31 (thousands of Canadian dollars)	**Three months ended** **2023**	2022
Scheduling fees	**-**	4,264

7. OPERATING COSTS

For the period ended March 31 (thousands of Canadian dollars)	**Three months ended** **2023**	2022
Salaries and benefits	**902**	918
Professional services	**178**	139
Other operating costs	**190**	163
	1,270	1,220

8. NET FINANCE INCOME

For the period ended March 31 (thousands of Canadian dollars)	**Three months ended** **2023**	2022
Finance income		
Bank interest	**360**	30
Finance expense		
Bank and interest charges	**16**	17
Net finance income	**(344)**	(13)

9. OTHER EXPENSE (INCOME)

		Three months ended	
For the period ended March 31 (thousands of Canadian dollars)		**2023**	2022
Net PPA loss (gain)	10.2	**6,071**	(17,539)
Mark-to-market of open market positions		**878**	2,191
Unrealized foreign exchange loss (gain)		**218**	(76)
Financial transmission rights income and amortization		**-**	216
Realized foreign exchange (gain) loss		**(147)**	5
		7,020	(15,203)

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

10.1 Fair Value

The estimated fair values of financial instruments as at March 31, 2023 and December 31, 2022 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 March 31, 2023 and the year ended December 31, 2022.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
As at (thousands of Canadian dollars)			**March 31, 2023**		December 31, 2022
Financial assets					
Derivative assets	**2,3**	**60,307**	**60,307**	88,661	88,661
Long-term derivative assets	**3**	**16**	**16**	13	13
Financial liabilities					
Derivative liabilities	**2**	**49**	**49**	-	-

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 2023 calendar year. It does not include the value of transmission rights or other transportation and market related costs.

Financial transmission rights are purchased contracts used to mitigate risk associated with congestion in export markets.

The following table summarizes quantitative information about the valuation techniques and unobservable inputs used in the fair value measurement of Level 3 financial instruments as at March 31, 2023.

(thousands of Canadian dollars)	Carrying Value	Valuation Techniques	Significant Unobservable Input(s)	Range
Derivative asset (Financial transmission rights)	**303**	Modelled pricing	Price, seasonality and market factors	-34% to 66%
Derivative asset (Power purchase derivative asset)	**58,196**	Modelled pricing	Volumes (MWh)	40% to 45% of available generation

Methodologies for calculating the fair values of financial transmission rights are determined by using underlying contractual data as well as observable and unobservable inputs. Fair value methodologies are reviewed by Management on a quarterly basis to assess the reasonability of the assumptions made and models are adjusted as necessary for significant expected changes in fair value due to changes in key inputs. As at March 31, 2023, the effect of using reasonably possible alternative assumptions regarding the unobservable implied volatilities may have resulted in -$0.1 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 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 March 31, 2023, the effect of using reasonably possible alternative assumptions for volume inputs to valuation techniques may have resulted in +$1.2 million to +$3.9 million change in the carrying value of the power purchase derivative asset.

10.2 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.

<u>Credit Risk</u>

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).

<u>Liquidity Risk</u>
Energy Marketing is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. Liquidity risk management is aimed at ensuring cash is available to meet those obligations as they become due.

Short-term liquidity is provided mainly through cash on hand, funds from operations, and a $20.0 million demand operating credit facility with its bank. This credit facility, which is unconditionally and irrevocably guaranteed by Nalcor, had no amounts outstanding as of March 31, 2023 (December 31, 2022 - $nil), however $4.8 million CAD equivalent of the limit was used to issue five irrevocable letters of credit (December 31, 2022 - $4.8 million CAD equivalent for five irrevocable letters of credit).

As at March 31, 2023, Nalcor, on behalf of Energy Marketing, has issued $6.1 million CAD equivalent (December 31, 2022 - $6.2 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 March 31, 2023, Nalcor, on behalf of Energy Marketing, has issued unconditional guarantees and sales contracts in the amount of $22.6 million CAD equivalent (December 31, 2022 - $22.7 million CAD), in order to guarantee amounts under power purchase and sale contracts with bilateral counterparties and sale of transmission rights.

<u>Market Risk</u>
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 USD/CAD foreign exchange rates and current commodity prices, most notably the spot prices for electricity.

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 (Loss) Profit and Comprehensive (Loss) Income. For the period ended March 31, 2023, $1.5 million in realized gains (March 31, 2022 - $1.2 million 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.

For the period ended March 31, 2023, total energy sales denominated in USD were $11.7 million USD (March 31, 2022 - $8.7 million USD).

The components of change impacting the carrying value of derivative assets and liabilities for the period ended March 31, 2023 and 2022 are as follows:

	Total	
(thousands of Canadian dollars)	**Level II**	**Level III**
Balance at January 1, 2023	**2,653**	**86,021**
Net purchases	**-**	**172**
	2,653	**86,193**
Changes to profit (loss)		
Amortization	**-**	**(175)**
Mark-to-market	**(878)**	**(15,582)**
Settlements (a)	**-**	**(11,937)**
Total	**(878)**	**(27,694)**
Balance at March 31, 2023	**1,775**	**58,499**
Balance at January 1, 2022	2,650	56,228
Net Purchases	-	408
	2,650	56,636
Changes to profit (loss)		
Amortization	-	(127)
Mark-to-market	(2,191)	8,191
Settlements (a)	-	(9,410)
Total	(2,191)	(1,346)
Balance at March 31, 2022	459	55,290

(a) Net changes in Energy Marketing – Hydro PPA

	Three months ended	
For the period ended March 31 (thousands of Canadian dollars)	**2023**	2022
PPA gains		
Amortization of deferral	**(21,422)**	(18,551)
Mark-to-market of derivative	**-**	(8,398)
	(21,422)	(26,949)
PPA losses		
Mark-to-market of derivative	**15,556**	-
Settlement of realized profit	**11,937**	9,410
	27,493	9,410
Net PPA loss (gain)	**6,071**	(17,539)

11. RELATED PARTY TRANSACTIONS

Energy Marketing enters into various transactions with its parent and other related parties. 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 (Muskrat Falls)	Wholly-owned subsidiary of Nalcor

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

As at (thousands of Canadian dollars)		**March 31 2023**	December 31 2022
Trade and other receivables:			
Other related parties		**12,098**	11,263
Prepayments:			
Other related parties		**1,300**	1,349
Trade and other payables:			
Other related parties		**6,836**	8,152
Parent		**67**	91

For the period ended March 31 (thousands of Canadian dollars)		**Three months ended 2023**	2022
Other revenue:			
Other related parties		**-**	4,263
Transmission rental and market fees:			
Other related parties		**7,864**	2,379
Operating costs:			
Parent		**135**	188
Other related parties		**69**	54
Power purchased:			
Other related parties	(a,b)	**6,136**	183

(a) In April 2022, Energy Marketing and Hydro amended the Energy Marketing – Hydro PPA to allow Energy Marketing to purchase incremental Recapture energy.

(b) In July 2022, Energy Marketing and Muskrat Falls entered into a short-term Service Agreement where Muskrat Falls has agreed to sell and Energy Marketing has agreed to purchase Muskrat Falls Residual Block for export and sales to external markets.

12. SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended	
For the period ended March 31 (thousands of Canadian dollars)	**2023**	2022
Trade and other receivables	**4,643**	(5,510)
Prepayments	**186**	(129)
Trade and other payables	**(1,054)**	12,572
Changes in non-cash working capital balances	**3,775**	6,933
Related to:		
Operating activities	**3,617**	6,710
Investing activities	**158**	223
	3,775	6,933