

NALCOR ENERGY MARKETING CORPORATION
CONDENSED INTERIM FINANCIAL STATEMENTS
March 31, 2025
(Unaudited)

NALCOR ENERGY MARKETING CORPORATION
STATEMENT OF FINANCIAL POSITION
(Unaudited)

<i>As at (thousands of Canadian dollars)</i>	<i>Notes</i>	March 31 2025	December 31 2024
ASSETS			
Current assets			
Cash		31,943	27,252
Trade and other receivables		6,810	13,675
Inventories	3	4,040	5,047
Prepayments		2,585	2,791
Derivative assets	11	76,429	83,930
Total current assets		121,807	132,695
Non-current assets			
Property, plant and equipment		127	135
Intangible assets		5	5
Long-term derivative assets	11	-	2
Total assets		121,939	132,837
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	4	9,828	6,703
Derivative liabilities	11	65	3
Deferred liability	5	62,930	83,907
Total current liabilities		72,823	90,613
Non-current liabilities			
Employee future benefits		825	897
Total liabilities		73,648	91,510
Shareholder's equity			
Share capital		1	1
Reserves		371	371
Retained earnings		47,919	40,955
Total equity		48,291	41,327
Total liabilities and equity		121,939	132,837

See accompanying notes

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

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Notes	Three months ended	
		2025	2024
			(Note 14)
Energy sales		51,530	29,723
Other revenue	7	3,926	4,960
Net finance income	8	471	489
Revenue		55,927	35,172
Transmission rental and market fees		12,026	15,772
Operating costs	9	1,076	1,356
Power purchased	12	21,068	12,716
Depreciation and amortization		8	9
Other income	10	(12,215)	(6,346)
Expenses		21,963	23,507
Total profit and comprehensive income for the period		33,964	11,665

See accompanying notes

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

<i>(thousands of Canadian dollars)</i>	Note	Share Capital	Employee Benefit Reserve	Retained Earnings	Total (Note 14)
Balance at January 1, 2025		1	371	40,955	41,327
Total profit and comprehensive income for the period		-	-	33,964	33,964
Dividends	6	-	-	(27,000)	(27,000)
Balance at March 31, 2025		1	371	47,919	48,291
 Balance at January 1, 2024		 1	 409	 48,174	 48,584
Total profit and comprehensive income for the period		-	-	11,665	11,665
Dividends	6	-	-	(14,000)	(14,000)
Balance at March 31, 2024		1	409	45,839	46,249

See accompanying notes

NALCOR ENERGY MARKETING CORPORATION
STATEMENT OF CASH FLOWS
(Unaudited)

		Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>		2025	2024
		(Note 14)	
Operating activities			
Profit for the period		33,964	11,665
Adjustments to reconcile profit to cash provided from operating activities:			
Depreciation and amortization		8	9
Gain on power purchase agreement (PPA) balances	11	(13,495)	(3,771)
Loss (gain) on fair value of renewable energy certificates (RECs)	10	1,007	(2,056)
Unrealized loss on derivatives		83	2
Finance income	8	(480)	(496)
Finance expense	8	9	7
Other		(72)	22
		21,024	5,382
Changes in non-cash working capital balances	13	10,281	(942)
Interest received		480	496
Interest paid		(9)	(7)
Net cash provided from operating activities		31,776	4,929
Investing activities			
Additions to property, plant and equipment		-	(3)
Additions to financial transmission rights	11	-	(86)
Change in non-cash working capital balances	13	(85)	85
Net cash used in investing activities		(85)	(4)
Financing activity			
Dividends paid	6	(27,000)	(14,000)
Net cash used in financing activity		(27,000)	(14,000)
Net increase (decrease) in cash		4,691	(9,075)
Cash, beginning of the period		27,252	28,499
Cash, end of the period		31,943	19,424

See accompanying notes

NALCOR ENERGY MARKETING CORPORATION

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

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. Energy Marketing is a 100% owned subsidiary of Newfoundland and Labrador Hydro (Hydro). The purpose of Energy Marketing is to manage Hydro's participation in extra-provincial electricity markets. Energy Marketing's head office is located at 500 Columbus Drive, St. John's, Newfoundland and Labrador, A1B 0P5, Canada.

- 1.1 Effective January 1, 2025, Nalcor Energy and its wholly owned subsidiary Newfoundland and Labrador Hydro were legislatively amalgamated into Hydro, a new legal corporation that continues under the name "Newfoundland and Labrador Hydro". The amalgamation was accounted for as a business combination under common control. Upon the amalgamation, Energy Marketing is wholly owned and controlled by the amalgamated entity (Hydro).

2. MATERIAL 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, 2024.

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 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. The Board of Directors has delegated authority to approve the condensed interim financial statements to the Audit Committee of the Board of Directors of Hydro, which approved the condensed interim financial statements on May 14, 2025.

3. INVENTORIES

As at March 31, 2025, Energy Marketing held 301,793 RECs in inventory with a book value of \$4.0 million (December 31, 2024 – 484,776 RECs with a book value of \$5.0 million). The fair value of RECs inventory additions, dispositions and other adjustments during the period resulted in a \$1.0 million loss (March 31, 2024 - \$2.1 million gain) which is included in Other income.

4. TRADE AND OTHER PAYABLES

<i>As at (thousands of Canadian dollars)</i>	<i>Note</i>	March 31 2025	December 31 2024
Trade payables and other accruals		1,748	863
Due to related parties	12	8,080	5,840
		9,828	6,703

NALCOR ENERGY MARKETING CORPORATION**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)****5. DEFERRED LIABILITY**

The deferred liability associated with the Energy Marketing – Hydro PPA represents Energy Marketing’s current liability related to its expected commitments for 2025 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.

	March 31	December 31
<i>As at (thousands of Canadian dollars)</i>	2025	2024
Deferred liability, beginning of the period	83,907	68,131
Additions	-	83,907
Amortization	(20,977)	(68,131)
Deferred liability, end of the period	62,930	83,907

6. DIVIDENDS

	Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	2025	2024
Declared and paid during the period	27,000	14,000

7. OTHER REVENUE

	Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	2025	2024
Renewable energy certificates	3,612	4,960
Other	314	-
	3,926	4,960

8. NET FINANCE INCOME

	Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	2025	2024
Finance income		
Bank interest	480	496
Finance expense		
Bank and interest charges	9	7
Net finance income	471	489

9. OPERATING COSTS

	Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	2025	2024
Salaries and benefits	769	978
Professional services	117	171
Other operating costs	190	207
Total operating costs	1,076	1,356

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

10. OTHER INCOME

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Notes	Three months ended	
		2025	2024
			(Note 13)
Net PPA gain	11, 12	(13,495)	(3,771)
Loss (gain) on fair value of RECs	3	1,007	(2,056)
Net financial transmission rights income and amortization		10	6
Unrealized foreign exchange loss (gain)		104	(593)
Realized foreign exchange loss		98	78
Mark-to-market of open market positions		61	(10)
Total other income		(12,215)	(6,346)

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

11.1 Fair Value

The estimated fair values of financial instruments as at March 31, 2025 and December 31, 2024 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, 2025 and the year ended December 31, 2024.

NALCOR ENERGY MARKETING CORPORATION

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>As at (thousands of Canadian dollars)</i>		March 31, 2025		December 31, 2024	
Financial assets					
Derivative assets	3	76,429	76,429	83,930	83,930
Long-term derivative assets	3	-	-	2	2
Financial liabilities					
Derivative liabilities	2	65	65	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 Energy Marketing's forecasted energy sales net of Recapture power purchases, for the 2025 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, 2025.

<i>(thousands of Canadian dollars)</i>	Carrying Value	Valuation Techniques	Significant Unobservable Input(s)	Range
Derivative asset (Financial transmission rights)	4	Modelled pricing	Price, seasonality and market factors	-5% to 182%
Derivative asset (Power purchase derivative asset)	76,425	Modelled pricing	Volumes (MWh)	38% to 40% 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, 2025, the effect of using reasonably possible alternative assumptions regarding the unobservable implied volatilities may have resulted in \$nil 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, 2025, the effect of using reasonably possible alternative assumptions for volume inputs to valuation techniques may have resulted in +\$1.4 million to +\$2.6 million change in the carrying value of the power purchase derivative asset.

11.2 Risk Management

Energy Marketing is exposed to certain credit, liquidity and market 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. 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 Hydro, had no amounts outstanding as of March 31, 2025 (December 31, 2024 - \$nil), however \$3.7 million CAD equivalent of the limit was used to issue irrevocable letters of credit (December 31, 2024 - \$3.7 million CAD equivalent).

As at March 31, 2025, Hydro, on behalf of Energy Marketing, has issued \$6.3 million CAD equivalent (December 31, 2024 - \$6.3 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, 2025, Hydro, on behalf of Energy Marketing, has issued unconditional guarantees and sales contracts in the amount of \$23.0 million CAD equivalent (December 31, 2024 - \$23.0 million CAD), in order to guarantee amounts under power purchase and sale contracts with bilateral counterparties and sale of transmission rights.

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 USD/CAD foreign exchange rates and current commodity prices, most notably the spot prices for electricity and any potential new or revised tariffs.

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 March 31, 2025 committed energy price and real time energy during the hour the energy physically flows are immaterial and are included in Other income on the Statement of Profit and Comprehensive Income.

Foreign Currency and Commodity Exposure

Energy Marketing's primary exposure to both foreign exchange and commodity price risk arises from its USD denominated electricity and REC sales. For the period ended March 31, 2025, total energy and REC sales denominated in USD were \$36.9 million USD (March 31, 2024 - \$25.7 million USD).

NALCOR ENERGY MARKETING CORPORATION

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

The components of change impacting the carrying value of derivative assets and liabilities for the period ended March 31, 2025 and 2024 are as follows:

	Total	
<i>(thousands of Canadian dollars)</i>	Level II	Level III
Balance at January 1, 2025	(3)	83,932
Net Purchases	-	-
Additions	-	-
	(3)	83,932
Changes to profit (loss)		
Amortization	-	(13)
Mark-to-market	(62)	15,811
Settlements (a)	-	(23,301)
Total	(62)	(7,503)
Balance at March 31, 2025	(65)	76,429

<i>(thousands of Canadian dollars)</i>		
Balance at January 1, 2024	(26)	68,146
Net Purchases	-	86
	(26)	68,232
Changes to profit (loss)		
Amortization	-	(44)
Mark-to-market	10	2,819
Settlements (a)	-	(16,049)
Total	10	(13,274)
Balance at March 31, 2024	(16)	54,958

(a) Net changes in Energy Marketing – Hydro PPA

	Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	2025	2024
PPA gains		
Amortization of deferral	(20,977)	(17,033)
Mark-to-market of derivative	(15,819)	(2,787)
	(36,796)	(19,820)
PPA losses		
Settlement of realized profit	23,301	16,049
	23,301	16,049
Net PPA gain	(13,495)	(3,771)

12. 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 normally within 30 days.

Related parties with which Energy Marketing transacts are as follows:

Related Party	Relationship
Hydro	100% shareholder of Energy Marketing
Muskrat Falls Corporation (Muskrat Falls)	Wholly-owned subsidiary of Hydro

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

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

<i>As at (thousands of Canadian dollars)</i>	<i>Notes</i>	March 31 2025	December 31 2024
Prepayments:			
Parent		2,204	2,204
Derivative asset:			
Parent	11	76,425	83,907
Trade and other payables:	4		
Parent		6,921	4,749
Other related parties		1,159	1,091
Deferred liability:			
Parent	5	62,930	83,907
		Three months ended	2025
<i>For the period ended March 31 (thousands of Canadian dollars)</i>			2024
Transmission rental and market fees:			
Parent		11,397	9,208
Operating costs:			
Parent		187	269
Power purchased (recovery):			
Parent	(a)	9,804	13,343
Other related parties	(b)	11,215	(796)
Other income:			
Parent	10,11	13,495	3,771
Dividends paid:			
Parent	6	27,000	14,000

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

(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.

13. SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	2025	2024
Trade and other receivables	6,865	(631)
Prepayments	206	94
Trade and other payables	3,125	(320)
Changes in non-cash working capital balances	10,196	(857)
Related to:		
Operating activities	10,281	(942)
Investing activities	(85)	85
	10,196	(857)

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

14. PRIOR PERIOD ADJUSTMENT

The comparative figures have been restated as a result of a misstatement relating to the valuation of RECs inventory.

The following table summarizes the adjustments from the previously issued March 31, 2024, financial statements to the current year comparative figures:

Statement of Profit and Comprehensive Income

<i>For the period ended March 31, 2024 (thousands of Canadian dollars)</i>	As previously reported	Adjustment	As restated
Other income	(4,290)	(2,056)	(6,346)
Total profit and comprehensive income for the period	9,609	2,056	11,665