

NALCOR ENERGY - OIL AND GAS INC.
CONDENSED INTERIM FINANCIAL STATEMENTS
June 30, 2021
(Unaudited)

NALCOR ENERGY - OIL AND GAS INC.
STATEMENT OF FINANCIAL POSITION
(Unaudited)

<i>As at (thousands of Canadian dollars)</i>	Notes	June 30 2021	December 31 2020
ASSETS			
Current assets			
Cash		15,443	9,591
Trade and other receivables		40,497	41,067
Inventories		17,197	14,858
Prepayments		7,629	7,525
Derivative assets	9	2,985	2,600
Total current assets		83,751	75,641
Non-current assets			
Property, plant and equipment	3	826,118	870,349
Other long-term assets		378	378
Total assets		910,247	946,368
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		26,659	19,623
Current portion of long-term payable	4	41,101	300
Derivative liabilities	9	34,561	8,758
Total current liabilities		102,321	28,681
Non-current liabilities			
Decommissioning liabilities		106,331	108,416
Long-term payable	4	51,371	250
Total liabilities		260,023	137,347
Shareholder's equity			
Share capital		110,000	110,000
Shareholder contributions		906,112	906,112
Reserves		(26,870)	(6,158)
Deficit		(339,018)	(200,933)
Total equity		650,224	809,021
Total liabilities and equity		910,247	946,368

Commitments and contingencies (Note 11)

See accompanying notes

NALCOR ENERGY - OIL AND GAS INC.
STATEMENT OF PROFIT (LOSS) AND COMPREHENSIVE INCOME (LOSS)
(Unaudited)

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Six months ended	
		2021	2020	2021	2020
Petroleum and natural gas sales		87,743	37,964	151,498	119,669
Royalties	10	(17,980)	(3,389)	(26,261)	(15,924)
Other revenue		-	-	-	80
Revenue, net		69,763	34,575	125,237	103,825
Operating costs	6	1,085	1,171	2,153	2,291
Production, marketing and transportation costs		9,224	9,197	16,679	19,649
Depreciation, depletion, amortization and impairment		23,304	25,230	41,035	284,875
Exploration and evaluation expense		-	(224)	(8)	(133)
Net finance expense	7	1,082	824	1,863	1,407
Other expense (income)	8	5,945	(19,977)	121,600	(30,825)
Expenses		40,640	16,221	183,322	277,264
Profit (loss) for the period		29,123	18,354	(58,085)	(173,439)
Other comprehensive (loss) income					
<i>Total items that may or have been reclassified to profit or loss</i>					
Net fair value (losses) gains on cash flow hedges		(22,698)	(10,632)	(44,628)	54,064
Reclassification adjustments related to:					
Cash flow hedges recognized in profit or loss		12,904	(19,861)	23,916	(27,507)
Other comprehensive (loss) income for the period		(9,794)	(30,493)	(20,712)	26,557
Total comprehensive income (loss) for the period		19,329	(12,139)	(78,797)	(146,882)

See accompanying notes

NALCOR ENERGY - OIL AND GAS INC.
STATEMENT OF CHANGES IN EQUITY
(Unaudited)

<i>(thousands of Canadian dollars)</i>	Note	Share Capital	Shareholder Contributions	Fair Value Reserve	(Deficit) Retained Earnings	Total
Balance at January 1, 2021		110,000	906,112	(6,158)	(200,933)	809,021
Loss for the period		-	-	-	(58,085)	(58,085)
Other comprehensive loss		-	-	(20,712)	-	(20,712)
Total comprehensive loss for the period		-	-	(20,712)	(58,085)	(78,797)
Dividends	5	-	-	-	(80,000)	(80,000)
Balance at June 30, 2021		110,000	906,112	(26,870)	(339,018)	650,224

Balance at January 1, 2020		110,000	906,112	(5,205)	91,425	1,102,332
Loss for the period		-	-	-	(173,439)	(173,439)
Other comprehensive income		-	-	26,557	-	26,557
Total comprehensive loss for the period		-	-	26,557	(173,439)	(146,882)
Dividends	5	-	-	-	(90,000)	(90,000)
Balance at June 30, 2020		110,000	906,112	21,352	(172,014)	865,450

See accompanying note

NALCOR ENERGY - OIL AND GAS INC.
STATEMENT OF CASH FLOWS
(Unaudited)

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Six months ended	
		2021	2020	2021	2020
Operating activities					
Profit (loss) for the period		29,123	18,354	(58,085)	(173,439)
Adjustments to reconcile profit (loss) to cash provided from operating activities:					
Depreciation, depletion, amortization and impairment		23,304	25,230	41,035	284,875
Finance income	7	(18)	(52)	(46)	(285)
Finance expense	7	30	27	33	31
Accretion	7	1,070	849	1,876	1,661
Derivative losses (gains)	9	454	(1,282)	4,706	-
HSE Redetermination re-balancing adjustment	8	(8,279)	-	91,802	-
Gain on disposal of property plant and equipment	8	-	-	(31,090)	-
		45,684	43,126	50,231	112,843
Changes in non-cash working capital balances	12	(25,026)	3,959	17,226	(566)
Other		(249)	-	(249)	(250)
Interest received		18	52	46	285
Interest paid		(30)	(27)	(33)	(31)
Net cash provided from operating activities		20,397	47,110	67,221	112,281
Investing activities					
Additions to property, plant and equipment	3	(5,743)	(10,209)	(11,927)	(19,668)
Proceeds on disposal of property, plant and equipment		-	-	40,315	988
Proceeds on disposal of intangible assets		-	-	-	1,149
Change in non-cash working capital balances	12	(2,752)	(163)	(9,757)	3,249
Net cash (used in) provided from investing activities		(8,495)	(10,372)	18,631	(14,282)
Financing activities					
Dividends paid to Nalcor Energy	5	(10,000)	(50,000)	(80,000)	(90,000)
Net cash used in financing activities		(10,000)	(50,000)	(80,000)	(90,000)
Net increase (decrease) in cash		1,902	(13,262)	5,852	7,999
Cash, beginning of the period		13,541	34,861	9,591	13,600
Cash, end of the period		15,443	21,599	15,443	21,599

See accompanying notes

NALCOR ENERGY - OIL AND GAS INC.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

1. DESCRIPTION OF BUSINESS

Nalcor Energy - Oil and Gas Inc. (Oil and Gas or the Company) was incorporated under the Corporations Act of Newfoundland and Labrador (the Province). Oil and Gas has a mandate to engage in the upstream and downstream sectors of the oil and gas industry. Upstream includes exploration, development, and production activities while downstream includes transportation and processing activities. Oil and Gas is a 100% owned subsidiary of Nalcor Energy (Nalcor). Substantially all of Oil and Gas' activities are conducted jointly with others and, accordingly, these condensed interim financial statements reflect only Oil and Gas' proportionate interest in such activities. The head office is located at 500 Columbus Drive, St. John's, Newfoundland and Labrador, A1B 0C9, Canada.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance and Basis of Measurement

These condensed interim financial statements have been prepared in accordance with International Accounting Standard *IAS 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, 2020.

These condensed interim financial statements do not include all of the disclosures normally found in the Company'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 assets and liabilities at fair value through profit or loss which have been measured at fair value. The condensed interim financial statements are presented in Canadian dollars (CAD) and all values rounded to the nearest thousand, except when otherwise noted. The Board of Directors (the Board) has delegated the 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 12, 2021.

NALCOR ENERGY - OIL AND GAS INC.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

3. PROPERTY, PLANT AND EQUIPMENT

<i>(thousands of Canadian dollars)</i>	Petroleum and Natural Gas Properties	Other	Total
Cost			
Balance at January 1, 2020	1,573,781	2,183	1,575,964
Additions	37,174	-	37,174
Disposals	-	(2,183)	(2,183)
Decommissioning liability revisions	18,219	-	18,219
Balance at December 31, 2020	1,629,174	-	1,629,174
Additions	11,927	-	11,927
Disposals	(46,390)	-	(46,390)
Decommissioning liability revisions	(3,592)	-	(3,592)
Balance at June 30, 2021	1,591,119	-	1,591,119
Depreciation, depletion and impairment			
Balance at January 1, 2020	432,125	1,195	433,320
Depreciation and depletion	101,278	-	101,278
Impairment	225,422	-	225,422
Disposals	-	(1,195)	(1,195)
Balance at December 31, 2020	758,825	-	758,825
Depreciation and depletion	43,341	-	43,341
Disposals	(37,165)	-	(37,165)
Balance at June 30, 2021	765,001	-	765,001
Carrying value			
Balance at January 1, 2020	1,141,656	988	1,142,644
Balance at December 31, 2020	870,349	-	870,349
Balance at June 30, 2021	826,118	-	826,118

4. LONG-TERM PAYABLE

The addition to the long-term payable is a result of First Redetermination under the Hibernia South Extension (HSE) Operating Agreement, which became effective on March 1, 2021 and resulted in a reduction in Oil and Gas' working interest in the HSE field from 10% to 8.7%. The change in working interest triggers the re-balancing of historic barrels of oil, which requires Oil and Gas to repay oil received above the revised working interest over an estimated 28 month period commencing May 2021. The balance of the liability as at June 30, 2021 is \$92.2 million (December 31, 2020 - \$nil) with \$40.8 million recorded as current and included in the current portion of long-term payable.

<i>As at (thousands of Canadian dollars)</i>	June 30 2021	December 31 2020
Long-term payable, beginning of the period	550	800
Additions	100,562	-
Settlements	(9,009)	(250)
Accretion	369	-
	92,472	550
Less: current portion	(41,101)	(300)
Long-term payable, end of the period	51,371	250

NALCOR ENERGY - OIL AND GAS INC.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

5. SHAREHOLDER'S EQUITY

5.1 Dividends

	Three months ended		Six months ended	
<i>For the period ended June 30 (thousands of Canadian dollars)</i>	2021	2020	2021	2020
Declared and paid during the period	10,000	50,000	80,000	90,000

6. OPERATING COSTS

	Three months ended		Six months ended	
<i>For the period ended June 30 (thousands of Canadian dollars)</i>	2021	2020	2021	2020
Professional services	1,063	1,076	2,128	2,124
Insurance	15	10	17	20
Other operating costs	6	3	13	10
Cost recoveries	1	5	1	16
Salaries and benefits	-	77	(6)	121
	1,085	1,171	2,153	2,291

7. NET FINANCE EXPENSE

	Three months ended		Six months ended	
<i>For the period ended June 30 (thousands of Canadian dollars)</i>	2021	2020	2021	2020
Finance income				
Interest income	18	52	46	285
	18	52	46	285
Finance expense				
Accretion	1,070	849	1,876	1,661
Other finance expense	30	27	33	31
	1,100	876	1,909	1,692
Net finance expense	1,082	824	1,863	1,407

8. OTHER EXPENSE (INCOME)

		Three months ended		Six months ended	
<i>For the period ended June 30 (thousands of Canadian dollars)</i>		2021	2020	2021	2020
HSE Redetermination re-balancing adjustment	(a)	(8,279)	-	91,802	-
HSE redetermination royalty adjustment	(a)	-	-	30,635	-
Gain on disposal of property, plant and equipment	(a)	-	-	(31,090)	-
Settlement of commodity swaps		14,826	(21,876)	26,827	(29,444)
Other		(602)	1,899	3,426	(1,381)
Other expense (income)		5,945	(19,977)	121,600	(30,825)

- (a) On March 1, 2021 First Redetermination under the HSE Operating Agreement became effective, resulting in a reduction in Oil and Gas' working interest in the HSE field from 10% to 8.7%. The impact of the decrease in working interest included a historical true-up of production, capital costs and royalties.

NALCOR ENERGY - OIL AND GAS INC.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

9.1 Fair Value

The estimated fair values of financial instruments as at June 30, 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 Oil and Gas might receive or incur in actual market transactions.

As a significant number of Oil and Gas' assets and liabilities do not meet the definition of a financial instrument, the fair value estimates below do not reflect the fair value of Oil and Gas 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 price and (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, the Company 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 for the period ended June 30, 2021 and the year ended December 31, 2020.

As at June 30, 2021 and December 31, 2020, the Company did not have any Level 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		June 30, 2021		December 31, 2020	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Derivative assets	2	2,985	2,985	2,600	2,600
Financial liabilities					
Derivative liabilities	2	34,561	34,561	8,758	8,758
Long-term payable including amount due within one year	2	92,172	96,878	550	550

The fair values 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.

9.2 Risk Management

Oil and Gas is exposed to certain credit, liquidity and market risk 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 Oil and Gas' expected future cash flows.

Credit Risk

Oil and Gas' expected future cash flows are exposed to credit risk through its operating activities, primarily through the potential for non-performance by its customers. The degree of exposure to credit risk on cash and the sale of crude oil, including the associated accounts receivable, is determined by the financial capacity and stability of those customers and counterparties. 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 Oil and Gas' cash deposits are held by a Schedule 1 Canadian Chartered bank with a rating of A+ (Standard and Poor's). Receivables resulting from oil sales are carried out under oil marketing agreements with major oil and gas companies whose creditworthiness has been appropriately assessed prior to execution of the related agreements. In cases where there may be concerns regarding the creditworthiness of a customer, Oil and Gas mitigates this credit risk by insuring the sale under the provisions of its marketing agreements.

Liquidity Risk

Oil and Gas is exposed to liquidity risk with respect to its contractual obligations and financial liabilities, including any derivative liabilities related to hedging activities. Liquidity risk management activities are directed to 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, and a \$30.0 million (December 31, 2020 - \$30.0 million) unsecured demand operating facility with the Company's bank. As at June 30, 2021 Oil and Gas had no borrowings outstanding on the credit facility (December 31, 2020 - \$nil), and \$22.2 million of the borrowing limit had been used to issue two irrevocable letters of credit (December 31, 2020 - \$22.2 million to issue two irrevocable letters of credit) to ensure compliance with service agreements and regulations relating to petroleum and natural gas exploration and production activities.

Market Risk

In the course of carrying out its operating, financing and investing activities, Oil and Gas 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 Oil and Gas has significant exposure include those relating to prevailing interest rates, foreign exchange rates, most notably USD/CAD, and current commodity prices, most notably the spot prices for oil.

Foreign Exchange and Commodity Exposure

Oil and Gas is exposed to foreign exchange and commodity price risk on its sales, which are denominated in USD and based on prevailing market oil prices. Commodity price exposure on USD denominated oil sales is addressed through the use of fixed price commodity swaps and foreign exchange exposure on sales is partially offset by USD denominated capital expenditures and foreign exchange forward contracts.

During 2021, total oil sales denominated in USD were \$121.3 million (June 30, 2020 - \$89.3 million). To mitigate foreign exchange risk and commodity price risk on a portion of sales, Oil and Gas have used foreign currency forward contracts and fixed price commodity swaps, respectively.

On March 29, 2021 Oil and Gas entered into a series of commodity price swap contracts with a notional value of \$47.8 million USD and an average price of \$60.97 USD per barrel. Additionally, on June 29, 2021, Oil and Gas entered into a series of commodity price swap contracts with a notional of \$43.3 million USD and an average price of \$70.46 USD per barrel.

NALCOR ENERGY - OIL AND GAS INC.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

As at June 30, 2021, Oil and Gas has 60 commodity price swaps remaining, hedging 55.92% of anticipated July 2021 to June 2022 oil sales. The remaining contracts have a notional value of \$110.5 million USD, and an average fixed price of \$58.88 USD per barrel. As the contracts have been designated as hedging instruments, change in fair value has been recorded in other comprehensive (loss) income. During 2021, \$26.8 million realized losses (June 30, 2020 - \$29.4 million in realized gains) have been recorded in other expense (income) and \$29.9 million in unrealized losses (June 30, 2020 - \$23.4 million in unrealized gains) remain in other comprehensive (loss) income.

On March 29, 2021 Oil and Gas entered into a series of foreign exchange forward contracts with a notional value of \$47.8 million USD and an average fixed exchange rate of \$1.26 CAD per USD. Additionally, on June 29, 2021, Oil and Gas entered into a series of foreign exchange forward contracts with a notional value of \$43.3 million USD and an average fixed exchange rate of \$1.24 CAD per USD.

As at June 30, 2021, Oil and Gas has 26 foreign exchange forward contracts remaining hedging foreign exchange risk on 55.71% of anticipated USD cash flows from oil sales from July 2021 to July 2022. The remaining contracts have a notional value of \$110.5 million USD, and an average fixed exchange rate of \$1.26 CAD per USD. As the contracts have been designated as hedging instruments, changes in fair value has been recorded in other comprehensive (loss) income. During 2021, \$2.9 million in realized gains (June 30, 2020 - \$1.9 million in realized losses) have been recorded in other expense (income) and \$3.0 million in unrealized gains (June 30, 2020 - \$2.0 million in unrealized losses) remain in other comprehensive (loss) income.

The components of change impacting the carrying value of financial instruments are as follows:

	Commodity and Forward Contracts	Other	Total
<i>(thousands of Canadian dollars)</i>	Level 2	Level 2	Level 2
Balance at January 1, 2021	(6,158)	-	(6,158)
Changes to profit (loss)			
Mark-to-market	-	(4,706)	(4,706)
Total	-	(4,706)	(4,706)
Changes in other comprehensive loss			
Mark-to-market	(44,628)	-	(44,628)
Settlements realized in profit (loss)	23,916	-	23,916
Total	(20,712)	-	(20,712)
Balance at June 30, 2021	(26,870)	(4,706)	(31,576)
Balance at January 1, 2020	(5,205)	-	(5,205)
Changes in other comprehensive income			
Mark-to-market	54,064	-	54,064
Settlements realized in profit (loss)	(27,507)	-	(27,507)
Total	26,557	-	26,557
Balance at June 30, 2020	21,352	-	21,352

NALCOR ENERGY - OIL AND GAS INC.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

10. RELATED PARTY TRANSACTIONS

Oil and Gas 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 Oil and Gas transacts are as follows:

Related Party	Relationship
Nalcor	100% shareholder of Oil and Gas
Newfoundland and Labrador Hydro (Hydro)	Wholly-owned subsidiary of Nalcor
Oil and Gas Corporation of Newfoundland and Labrador	Wholly-owned subsidiary of the Province
Bull Arm Fabrication	Wholly-owned subsidiary of Oil and Gas Corporation of Newfoundland and Labrador
The Province	100% shareholder of Nalcor

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Outstanding balances due to or from related parties are non-interest bearing with no set terms of repayment, unless otherwise stated.

Significant related party transactions and balances are as follows:

- (a) As at June 30, 2021, Oil and Gas had a net payable to Nalcor of \$0.6 million (December 31, 2020 - \$1.1 million net payable).
- (b) For the period ended June 30, 2021, Oil and Gas expensed \$26.3 million (June 30, 2020 - \$15.9 million) to the Province for royalties on its oil and gas operations.
- (c) As at June 30, 2021, Oil and Gas had a net receivable from Bull Arm Fabrication of \$3.3 million (December 31, 2020 - \$3.3 million).
- (d) As at June 30, 2021, Oil and Gas had a net receivable from the Oil and Gas Corporation of Newfoundland and Labrador of \$2.6 million (December 31, 2020 - \$2.5 million).
- (e) For the period ended June 30, 2021, Oil and Gas was charged \$2.1 million (June 30, 2020 - \$2.1 million) by Oil and Gas Corporation of Newfoundland and Labrador for management services.

NALCOR ENERGY - OIL AND GAS INC.**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)**

11. COMMITMENTS AND CONTINGENCIES

Oil and Gas is subject to various legal proceedings and claims in the normal course of business. Although the outcome of such actions cannot be predicted with certainty, Management believes Oil and Gas's exposure to such claims and litigation will not materially affect its financial position or results of operations.

12. SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended		Six months ended	
<i>For the period ended June 30 (thousands of Canadian dollars)</i>	2021	2020	2021	2020
Trade and other receivables	7,732	6,750	570	9,741
Inventory	1,348	384	(33)	967
Prepayments	90	2,874	(104)	524
Trade and other payables	(36,948)	(6,212)	7,036	(7,733)
Deferred revenue	-	-	-	(816)
Changes in non-cash working capital balances	(27,778)	3,796	7,469	2,683
Related to:				
Operating activities	(25,026)	3,959	17,226	(566)
Investing activities	(2,752)	(163)	(9,757)	3,249
	(27,778)	3,796	7,469	2,683