

NALCOR ENERGY - OIL AND GAS INC.
CONDENSED INTERIM FINANCIAL STATEMENTS
March 31, 2023
(Unaudited)

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

<i>As at (thousands of Canadian dollars)</i>	Notes	March 31 2023	December 31 2022
ASSETS			
Current assets			
Cash		29,956	20,060
Trade and other receivables	3	18,741	38,487
Inventories		17,885	14,355
Prepayments		5,978	7,614
Derivative assets	9	5,433	4,760
Total current assets		77,993	85,276
Non-current assets			
Property, plant and equipment	4	705,805	718,799
Other long-term assets		361	361
Total assets		784,159	804,436
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		12,265	18,505
Current portion of long-term payables		37,124	43,337
Derivative liabilities	9	22,455	30,256
Total current liabilities		71,844	92,098
Non-current liabilities			
Decommissioning liabilities		80,735	79,601
Total liabilities		152,579	171,699
Shareholder's equity			
Share capital		110,000	110,000
Shareholder contributions		906,112	906,112
Reserves		3,469	(345)
Deficit		(388,001)	(383,030)
Total equity		631,580	632,737
Total liabilities and equity		784,159	804,436

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 March 31 (thousands of Canadian dollars)</i>	Notes	Three months ended	
		2023	2022
Petroleum and natural gas sales		62,355	88,238
Royalties	10	(6,345)	(8,359)
Revenue, net		56,010	79,879
Operating costs	6	1,133	1,123
Production, marketing and transportation costs		9,069	6,721
Depreciation, depletion and amortization		21,843	20,336
Net finance expense	7	675	1,110
Other (income) expense	8	(14,739)	44,149
Expenses		17,981	73,439
Profit for the period		38,029	6,440
Other comprehensive income (loss)			
Total items that may or have been reclassified to profit or loss:			
Net fair value gain (loss) on cash flow hedges	9	7,749	(52,018)
Reclassification adjustments related to:			
Cash flow hedges recognized in profit or loss	9	(3,935)	26,078
Other comprehensive income (loss) for the period		3,814	(25,940)
Total comprehensive income (loss) for the period		41,843	(19,500)

See accompanying notes

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

(thousands of Canadian dollars)

	Notes	Share Capital	Shareholder Contributions	Fair Value Reserve	Deficit	Total
Balance at January 1, 2023		110,000	906,112	(345)	(383,030)	632,737
Profit for the period		-	-	-	38,029	38,029
Other comprehensive income		-	-	3,814	-	3,814
Total comprehensive income for the period		-	-	3,814	38,029	41,843
Dividends	5	-	-	-	(43,000)	(43,000)
Balance at March 31, 2023		110,000	906,112	3,469	(388,001)	631,580

Balance at January 1, 2022		110,000	906,112	(12,645)	(364,680)	638,787
Profit for the period		-	-	-	6,440	6,440
Other comprehensive loss		-	-	(25,940)	-	(25,940)
Total comprehensive loss for the period		-	-	(25,940)	6,440	(19,500)
Dividends	5	-	-	-	(30,000)	(30,000)
Balance at March 31, 2022		110,000	906,112	(38,585)	(388,240)	589,287

See accompanying notes

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

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Notes	Three months ended	
		2023	2022
Operating activities			
Profit for the period		38,029	6,440
Adjustments to reconcile profit to cash provided from operating activities:			
Depreciation, depletion and amortization		21,843	20,336
Finance income	7	(585)	(26)
Finance expense	7	1,260	1,136
Hibernia South Extension (HSE) Redetermination re-balancing adjustment	8	(10,989)	17,043
Decrease in other long-term assets		-	17
		49,558	44,946
Changes in non-cash working capital balances	12	17,417	(3,042)
Interest received		585	26
Interest paid		(11)	(5)
Net cash provided from operating activities		67,549	41,925
Investing activities			
Additions to property, plant and equipment	4	(10,939)	(6,545)
Changes in non-cash working capital balances	12	(3,714)	(971)
Net cash used in investing activities		(14,653)	(7,516)
Financing activity			
Dividends paid	5	(43,000)	(30,000)
Net cash used in financing activity		(43,000)	(30,000)
Net increase in cash		9,896	4,409
Cash, beginning of the period		20,060	15,836
Cash, end of the period		29,956	20,245

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

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, 2022.

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 May 15, 2023.

3. TRADE AND OTHER RECEIVABLES

	March 31	December 31
<i>As at (thousands of Canadian dollars)</i>	2023	2022
Trade receivables	18,397	38,206
Other receivables (a)	346	283
Due from related parties	5,730	5,730
Loss allowance (Note 10)	(5,732)	(5,732)
	18,741	38,487

(a) Other receivables are comprised primarily of harmonized sales tax (HST).

NALCOR ENERGY - OIL AND GAS INC.**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)****4. PROPERTY, PLANT AND EQUIPMENT**

<i>(thousands of Canadian dollars)</i>	Petroleum and Natural Gas Properties
Cost	
Balance at January 1, 2022	1,607,762
Additions	31,201
Decommissioning liability revisions	(36,085)
Balance at December 31, 2022	1,602,878
Additions	10,939
Balance at March 31, 2023	1,613,817
Depreciation, depletion and impairment	
Balance at January 1, 2022	803,025
Depreciation and depletion	99,443
Impairment reversal	(18,389)
Balance at December 31, 2022	884,079
Depreciation and depletion	23,933
Balance at March 31, 2023	908,012
Carrying value	
Balance at January 1, 2022	804,737
Balance at December 31, 2022	718,799
Balance at March 31, 2023	705,805

5. SHAREHOLDER'S EQUITY

Dividends	Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	2023	2022
Declared and paid during the period	43,000	30,000

6. OPERATING COSTS

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Three months ended	
	2023	2022
Professional services	1,063	1,064
Salaries and benefits	27	24
Insurance	16	15
Other operating costs	27	20
Total operating costs	1,133	1,123

NALCOR ENERGY - OIL AND GAS INC.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

7. NET FINANCE EXPENSE

	Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	2023	2022
Finance income		
Other interest income	(585)	(26)
Finance expense		
Accretion	1,249	1,131
Other finance expense	11	5
	1,260	1,136
Net finance expense	675	1,110

8. OTHER (INCOME) EXPENSE

	Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	2023	2022
HSE Redetermination re-balancing adjustment	(10,989)	17,043
Settlement of commodity swaps	(6,881)	26,090
Other	3,131	1,016
Other (income) expense	(14,739)	44,149

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

9.1 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 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 March 31, 2023 and the year ended December 31, 2022.

NALCOR ENERGY - OIL AND GAS INC.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

As at March 31, 2023 and December 31, 2022, the Company did not have any Level 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		March 31, 2023		December 31, 2022	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Derivative assets	2	5,433	5,433	4,760	4,760
Financial liabilities					
Derivative liabilities	2	22,455	22,455	30,256	30,256
Long-term payables including amount due within one year	2	37,124	32,464	43,337	50,058

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.

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.

NALCOR ENERGY - OIL AND GAS INC.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

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, 2022 - \$30.0 million) unsecured demand operating facility with the Company's bank. As at March 31, 2023 Oil and Gas had no borrowings outstanding on the credit facility (December 31, 2022 - \$nil), and \$20.9 million of the borrowing limit had been used to issue two irrevocable letters of credit (December 31, 2022 - \$20.9 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. In April 2023, Oil and Gas increased the limit of its unsecured demand operating facility from \$30.0 million to \$40.0 million CAD equivalent and issued an additional irrevocable letter of credit in the amount of \$15.6 million.

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. Historically, commodity price exposure on USD denominated oil sales was mitigated through the use of fixed price commodity swaps and foreign exchange exposure on sales was partially offset by USD denominated capital expenditures and foreign exchange forward contracts. Oil and Gas' 2023 Risk Management Plan does not include hedging and, as a result, the Company has not entered into any new commodity price swaps or foreign exchange forward contracts. Remaining contracts were entered into prior to December 31, 2022 and are set to mature throughout 2023.

For the period ended March 31, 2023, total oil sales denominated in USD were \$46.2 million (March 31, 2022 - \$69.6 million).

As at March 31, 2023, Oil and Gas has 36 commodity price swaps remaining, hedging 48% of anticipated April 2023 to December 2023 oil sales. The remaining contracts have a notional value of \$76.1 million USD, and an average fixed price of \$83.30 USD per barrel. As the contracts have been designated as hedging instruments, change in fair value has been recorded in other comprehensive income (loss). During 2023, \$6.9 million in realized gains (March 31, 2022 - \$26.1 million in realized losses) have been recorded in other (income) expense and \$5.4 million in unrealized losses (March 31, 2022 - \$39.8 million in unrealized losses) remain in other comprehensive income (loss).

As at March 31, 2023, Oil and Gas has 22 foreign exchange forward contracts remaining hedging foreign exchange risk on 55% of anticipated USD cash flows from oil sales from April 2023 to January 2024. The remaining contracts have a notional value of \$92.0 million USD, and an average fixed exchange rate of \$1.33 CAD per USD. As the contracts have been designated as hedging instruments, change in fair value has been recorded in other comprehensive income (loss). During 2023, \$2.9 million in realized losses (March 31, 2022 - \$nil) have been recorded in other (income) expense and \$2.0 million in unrealized loss (March 31, 2022 - \$1.2 million in unrealized gains) remain in other comprehensive income (loss).

NALCOR ENERGY - OIL AND GAS INC.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

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

	Commodity and Forward Contracts	HSE Redetermination	Total
<i>(thousands of Canadian dollars)</i>	Level 2	Level 2	Level 2
Balance at January 1, 2023	(25,496)	-	(25,496)
Changes to profit (loss)			
Mark-to-market	-	4,660	4,660
Total	-	4,660	4,660
Changes in other comprehensive income			
Mark-to-market	7,749	-	7,749
Settlements realized in profit (loss)	(3,935)	-	(3,935)
Total	3,814	-	3,814
Balance at March 31, 2023	(21,682)	4,660	(17,022)
Balance at January 1, 2022	(12,645)	(18,429)	(31,074)
Changes to profit (loss)			
Mark-to-market	-	(25,513)	(25,513)
Total	-	(25,513)	(25,513)
Changes in other comprehensive loss			
Mark-to-market	(52,018)	-	(52,018)
Settlements realized in profit (loss)	26,078	-	26,078
Total	(25,940)	-	(25,940)
Balance at March 31, 2022	(38,585)	(43,942)	(82,527)

Included in derivative liabilities as at March 31, 2023 is \$20.5 million (December 31, 2022 - \$25.2 million) related to an embedded derivative associated with the HSE Redetermination re-balancing liability which is recorded in current portion of long-term payables. The embedded derivative represents the change in fair value of the liability based on current forward oil prices. The offsetting unrealized gain or loss is recorded in other (income) expense. Also included in derivative liabilities is the change in fair value of commodity price swap and foreign exchange forward contracts, as disclosed in the table above.

10. RELATED PARTY TRANSACTIONS

Oil and Gas 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 Oil and Gas transacts are as follows:

Related Party	Relationship
Nalcor	100% shareholder of Oil and Gas
The Province	100% shareholder of Nalcor
Newfoundland and Labrador 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

NALCOR ENERGY - OIL AND GAS INC.**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>	March 31	December 31
	2023	2022
Trade and other receivables:		
Other related parties (a)	5,730	5,730
Trade and other payables:		
The Province	3,006	5,082
Parent	307	296
Other related parties	2	350
	Three months ended	2022
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	2023	2022
Royalties:		
The Province	(6,345)	(8,359)
Operating costs:		
Other related parties	1,050	1,050

(a) Included in trade and other receivables as at March 31, 2023 and December 31, 2022 is \$5,729 thousand owing from Bull Arm Fabrication and Oil and Gas Corporation of Newfoundland and Labrador. The balance was allowed for its entirety during 2021.

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' exposure to such claims and litigation will not materially affect its financial position or results of operations.

12. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Three months ended	2022
	2023	2022
Trade and other receivables	19,746	(17,146)
Inventories	(1,440)	(1,045)
Prepayments	1,636	(271)
Trade and other payables	(6,240)	14,449
Changes in non-cash working capital balances	13,702	(4,013)
Related to:		
Operating activities	17,417	(3,042)
Investing activities	(3,714)	(971)
	13,703	(4,013)