

**NALCOR ENERGY - OIL AND GAS INC.**  
**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**March 31, 2024**  
**(Unaudited)**

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

<i>As at (thousands of Canadian dollars)</i>	Notes	<b>March 31</b>	December 31
		<b>2024</b>	2023
<b>ASSETS</b>			
Current assets			
Cash		<b>22,681</b>	27,690
Trade and other receivables		<b>24,097</b>	21,853
Inventories		<b>18,752</b>	16,377
Prepayments		<b>7,348</b>	6,637
Derivative assets	9	-	273
<b>Total current assets</b>		<b>72,878</b>	72,830
Non-current assets			
Property, plant and equipment	3	<b>738,662</b>	741,874
Other long-term assets		<b>361</b>	361
<b>Total assets</b>		<b>811,901</b>	815,065
<b>LIABILITIES AND EQUITY</b>			
Current liabilities			
Trade and other payables	4	<b>25,333</b>	15,287
Current portion of long-term payables		<b>7,227</b>	14,909
Derivative liabilities	9	<b>4,675</b>	8,167
<b>Total current liabilities</b>		<b>37,235</b>	38,363
Non-current liabilities			
Decommissioning liabilities		<b>74,648</b>	73,667
<b>Total liabilities</b>		<b>111,883</b>	112,030
Shareholder's equity			
Share capital		<b>110,000</b>	110,000
Shareholder contributions		<b>906,112</b>	906,112
Reserves		-	273
Deficit		<b>(316,094)</b>	(313,350)
<b>Total equity</b>		<b>700,018</b>	703,035
<b>Total liabilities and equity</b>		<b>811,901</b>	815,065

Commitments and contingencies (Note 11)

See accompanying notes

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

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Notes	<b>Three months ended</b>	
		<b>2024</b>	2023
Petroleum and natural gas sales		<b>52,999</b>	62,355
Royalties		<b>(2,824)</b>	(6,345)
<b>Revenue, net</b>		<b>50,175</b>	56,010
Operating costs	6	<b>1,194</b>	1,133
Production, marketing and transportation costs		<b>13,623</b>	9,069
Depreciation, depletion and amortization		<b>13,047</b>	21,843
Net finance expense	7	<b>438</b>	675
Other income	8	<b>(12,283)</b>	(14,739)
<b>Expenses</b>		<b>16,019</b>	17,981
<b>Profit for the period</b>		<b>34,156</b>	38,029
Other comprehensive (loss) income			
Total items that may or have been reclassified to profit or loss:			
Net fair value (loss) gain on cash flow hedges	9	<b>(273)</b>	7,749
Reclassification adjustments related to:			
Cash flow hedges recognized in loss or profit	9	-	(3,935)
<b>Other comprehensive (loss) income for the period</b>		<b>(273)</b>	3,814
<b>Total comprehensive income for the period</b>		<b>33,883</b>	41,843

*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
<b>Balance at January 1, 2024</b>		<b>110,000</b>	<b>906,112</b>	<b>273</b>	<b>(313,350)</b>	<b>703,035</b>
<b>Profit for the period</b>		-	-	-	<b>34,156</b>	<b>34,156</b>
<b>Other comprehensive loss</b>		-	-	<b>(273)</b>	-	<b>(273)</b>
<b>Total comprehensive income for the period</b>		-	-	<b>(273)</b>	<b>34,156</b>	<b>33,883</b>
<b>Dividends</b>	5	-	-	-	<b>(36,900)</b>	<b>(36,900)</b>
<b>Balance at March 31, 2024</b>		<b>110,000</b>	<b>906,112</b>	-	<b>(316,094)</b>	<b>700,018</b>

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

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	<b>Three months ended</b>	
		<b>2024</b>	<b>2023</b>
<b>Operating activities</b>			
Profit for the period		<b>34,156</b>	38,029
Adjustments to reconcile profit to cash provided from operating activities:			
Depreciation, depletion and amortization		<b>13,047</b>	21,843
Finance income	7	<b>(580)</b>	(585)
Finance expense	7	<b>1,018</b>	1,260
Hibernia South Extension (HSE) Redetermination adjustment	8	<b>(11,209)</b>	(10,989)
		<b>36,432</b>	49,558
Changes in non-cash working capital balances	12	<b>6,391</b>	17,417
Interest received		<b>580</b>	585
Interest paid		<b>(3)</b>	(11)
<b>Net cash provided from operating activities</b>		<b>43,400</b>	67,549
<b>Investing activities</b>			
Additions to property, plant and equipment	3	<b>(12,772)</b>	(10,939)
Changes in non-cash working capital balances	12	<b>1,263</b>	(3,714)
<b>Net cash used in investing activities</b>		<b>(11,509)</b>	(14,653)
<b>Financing activity</b>			
Dividends paid	5	<b>(36,900)</b>	(43,000)
<b>Net cash used in financing activity</b>		<b>(36,900)</b>	(43,000)
Net (decrease) increase in cash		<b>(5,009)</b>	9,896
Cash, beginning of the period		<b>27,690</b>	20,060
Cash, end of the period		<b>22,681</b>	29,956

*See accompanying notes*

## **NALCOR ENERGY - OIL AND GAS INC.**

### **NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)**

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#### **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. MATERIAL 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, 2023.

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, 2024.

## 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
Cost	
Balance at January 1, 2023	1,602,878
Additions	58,228
Decommissioning liability revisions	(10,470)
Balance at December 31, 2023	1,650,636
<b>Additions</b>	<b>12,772</b>
<b>Balance at March 31, 2024</b>	<b>1,663,408</b>
Depreciation, depletion and impairment	
Balance at January 1, 2023	884,079
Depreciation and depletion	84,327
Impairment reversal	(59,644)
Balance at December 31, 2023	908,762
<b>Depreciation and depletion</b>	<b>15,984</b>
<b>Balance at March 31, 2024</b>	<b>924,746</b>
Carrying value	
Balance at January 1, 2023	718,799
Balance at December 31, 2023	741,874
<b>Balance at March 31, 2024</b>	<b>738,662</b>

#### 4. TRADE AND OTHER PAYABLES

<i>As at (thousands of Canadian dollars)</i>		March 31 2024	December 31 2023
Trade payables and accruals		19,956	10,824
Due to related parties	Note 10	2,464	1,404
Other payables	(a)	2,913	3,059
		<b>25,333</b>	<b>15,287</b>

(a) Other payables are comprised of HST.

#### 5. SHAREHOLDER'S EQUITY

##### Dividends

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Three months ended	
	2024	2023
Declared and paid during the period	36,900	43,000

## NALCOR ENERGY - OIL AND GAS INC.

### NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

#### 6. OPERATING COSTS

	Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	2024	2023
Professional services	1,064	1,063
Insurance	9	16
Salaries and benefits	7	27
Other operating costs	114	27
Total operating costs	1,194	1,133

#### 7. NET FINANCE EXPENSE

	Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	2024	2023
Finance income		
Other interest income	(580)	(585)
Finance expense		
Accretion	1,015	1,249
Other finance expense	3	11
	1,018	1,260
Net finance expense	438	675

#### 8. OTHER INCOME

	Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	2024	2023
HSE Redetermination adjustment	(11,209)	(10,989)
Settlement of commodity swaps	-	(6,881)
Settlement of foreign exchange forwards	-	2,945
Other	(1,074)	186
Total other income	(12,283)	(14,739)

#### 9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

##### 9.1 Fair Value

The estimated fair values of financial instruments as at March 31, 2024 and December 31, 2023 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 (unadjusted) in active markets for identical assets or liabilities.

## NALCOR ENERGY - OIL AND GAS INC.

### NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

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, 2024 and the year ended December 31, 2023.

As at March 31, 2024 and December 31, 2023, the Company did not have any Level 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		March 31, 2024		December 31, 2023	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Derivative assets	2	-	-	273	273
Financial liabilities					
Derivative liabilities	2	4,675	4,675	8,167	8,167
Current portion of long-term payables	2	7,227	12,181	14,909	23,416

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 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 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). Oil sales are carried out under oil sales and marketing agreements with major oil and gas companies whose creditworthiness has been appropriately assessed prior to execution of the related agreements.

## NALCOR ENERGY - OIL AND GAS INC.

### NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

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#### 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 \$40.0 million (December 31, 2023 - \$40.0 million) unsecured demand operating facility with the Company's bank. As at March 31, 2024, Oil and Gas had no borrowings outstanding on the credit facility (December 31, 2023 - \$nil), and \$33.5 million of the borrowing limit had been used to issue three irrevocable letters of credit (December 31, 2023 - \$33.5 million to issue three 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. Historically, cash flows variability related to 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. The Company has not entered into any new commodity price swaps or foreign exchange forward contracts since 2022, and the last contract matured in January 2024.

For the period ended March 31, 2024, total oil sales denominated in USD were \$39.6 million (March 31, 2023 - \$46.2 million).

As the commodity price and foreign exchange contracts were designated as hedging instruments, change in fair value was recorded in other comprehensive (loss) income. During 2024, no realized gains or losses (March 31, 2023 - \$4.0 million in realized gains) have been recorded in other income and no unrealized gains or losses (March 31, 2023 - \$7.4 million in unrealized losses) remain in other comprehensive (loss) income.

## 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
<b>Balance at January 1, 2024</b>	<b>273</b>	<b>(8,167)</b>	<b>(7,894)</b>
<b>Changes to profit (loss)</b>			
Redetermination Change in FV	-	<b>3,492</b>	<b>3,492</b>
<b>Total</b>	-	<b>3,492</b>	<b>3,492</b>
<b>Changes in other comprehensive income</b>			
Mark-to-market	<b>(273)</b>	-	<b>(273)</b>
<b>Total</b>	<b>(273)</b>	-	<b>(273)</b>
<b>Balance at March 31, 2024</b>	-	<b>(4,675)</b>	<b>(4,675)</b>
Balance at January 1, 2023	(25,496)	-	(25,496)
Changes to profit (loss)			
Mark-to-market	-	4,660	4,660
<b>Total</b>	-	<b>4,660</b>	<b>4,660</b>
Changes in other comprehensive income			
Mark-to-market	7,749	-	7,749
Settlements realized in profit (loss)	(3,935)	-	(3,935)
<b>Total</b>	<b>3,814</b>	-	<b>3,814</b>
<b>Balance at March 31, 2023</b>	<b>(21,682)</b>	<b>4,660</b>	<b>(17,022)</b>

Included in derivative liabilities as at March 31, 2024 is \$4.7 million (December 31, 2023 - \$8.2 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.

#### 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 normally within 30 days.

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>	<b>March 31</b>	December 31
	<b>2024</b>	2023
<b>Trade and other receivables:</b>		
Other related parties	<b>5,760</b>	5,760
<b>Trade and other payables:</b>		
The Province	<b>2,070</b>	1,104
Parent	<b>390</b>	298
Other related parties	<b>4</b>	2
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	<b>Three months ended</b>	2023
	<b>2024</b>	2023
<b>Royalties:</b>		
The Province	<b>(2,824)</b>	(5,991)
<b>Operating costs:</b>		
Other related parties	<b>1,050</b>	1,050

**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>	<b>Three months ended</b>	2023
	<b>2024</b>	2023
Trade and other receivables	<b>(2,244)</b>	19,746
Inventories	<b>563</b>	(1,439)
Prepayments	<b>(711)</b>	1,636
Trade and other payables	<b>10,046</b>	(6,240)
Changes in non-cash working capital balances	<b>7,654</b>	13,703
Related to:		
Operating activities	<b>6,391</b>	17,417
Investing activities	<b>1,263</b>	(3,714)
	<b>7,654</b>	13,703