

NALCOR ENERGY - OIL AND GAS INC.
FINANCIAL STATEMENTS
December 31, 2024

Independent Auditor's Report

To the Shareholder of Nalcor Energy – Oil and Gas Inc.

Opinion

We have audited the financial statements of Nalcor Energy – Oil and Gas Inc. (the “Company”), which comprise the statement of financial position as at December 31, 2024, and the statements of profit and comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of material accounting policy information (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2024, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (“IASB”).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards (“Canadian GAAS”). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter — Restated Comparative Information

We draw attention to Note 21 to the financial statements, which explains that certain comparative information presented for the year ended December 31, 2023 has been restated. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards as issued by the IASB, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte LLP

Chartered Professional Accountants
March 20, 2025


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

<i>As at December 31 (thousands of Canadian dollars)</i>	<i>Notes</i>	2024	2023
			(Note 21)
ASSETS			
Current assets			
Cash		31,901	27,690
Trade and other receivables	5	37,482	21,853
Inventories	6	18,209	16,377
Prepayments		4,433	6,637
Derivative assets	16	-	273
Total current assets		92,025	72,830
Non-current assets			
Property, plant and equipment	7	747,703	728,096
Other long-term assets		361	361
Total assets		840,089	801,287
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	8	29,365	15,287
Current portion of long-term payables	10	-	14,909
Derivative liabilities	16	-	8,167
Total current liabilities		29,365	38,363
Non-current liabilities			
Decommissioning liabilities	9	77,105	73,667
Total liabilities		106,470	112,030
Shareholder's equity			
Share capital	11	110,000	110,000
Shareholder contributions		906,112	906,112
Reserves		-	273
Deficit		(282,493)	(327,128)
Total equity		733,619	689,257
Total liabilities and equity		840,089	801,287

Commitments and contingencies (Note 18)
Subsequent event (Note 22)

See accompanying notes

On behalf of the Board:


DIRECTOR


DIRECTOR

NALCOR ENERGY - OIL AND GAS INC.
STATEMENT OF PROFIT AND COMPREHENSIVE INCOME

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	<i>Notes</i>	2024	2023
			(Note 21)
Petroleum and natural gas sales		240,463	266,017
Royalties	17	(25,346)	(14,884)
Revenue, net		215,117	251,133
Operating costs	12	4,522	4,565
Production, marketing and transportation costs	13	38,869	32,442
Depreciation, depletion and impairment		66,733	43,418
Net finance expense	14	1,697	2,528
Other income	15	(27,039)	(47,922)
Expenses		84,782	35,031
Profit for the year		130,335	216,102
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	16	(33)	4,454
Reclassification adjustments related to:			
Cash flow hedges recognized in loss or profit	16	(240)	(3,836)
Other comprehensive (loss) income for the year		(273)	618
Total comprehensive income for the year		130,062	216,720

See accompanying notes

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

<i>(thousands of Canadian dollars)</i>	Notes	Share Capital	Shareholder Contributions	Fair Value Reserve	Deficit	Total
						(Note 21)
Balance at January 1, 2024		110,000	906,112	273	(327,128)	689,257
Profit for the year		-	-	-	130,335	130,335
Other comprehensive loss	16	-	-	(273)	-	(273)
Total comprehensive income for the year		-	-	(273)	130,335	130,062
Dividends	11	-	-	-	(85,700)	(85,700)
Balance at December 31, 2024		110,000	906,112	-	(282,493)	733,619
Balance at January 1, 2023		110,000	906,112	(345)	(383,030)	632,737
Profit for the year		-	-	-	216,102	216,102
Other comprehensive income	16	-	-	618	-	618
Total comprehensive income for the year		-	-	618	216,102	216,720
Dividends	11	-	-	-	(160,200)	(160,200)
Balance at December 31, 2023		110,000	906,112	273	(327,128)	689,257

See accompanying notes

NALCOR ENERGY - OIL AND GAS INC. **STATEMENT OF CASH FLOWS**

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	Notes	2024	2023
			(Note 21)
Operating activities			
Profit for the year		130,335	216,102
Adjustments to reconcile profit to cash provided from operating activities:			
Depreciation, depletion and impairment		66,733	43,418
Finance income	14	(2,382)	(2,546)
Finance expense	14	4,079	5,074
Hibernia South Extension (HSE) Redetermination adjustment	15	(23,123)	(45,759)
		175,642	216,289
Changes in non-cash working capital balances	20	(816)	6,661
Interest received		2,382	2,546
Interest paid		(109)	(191)
Net cash provided from operating activities		177,099	225,305
Investing activities			
Additions to property, plant and equipment	7	(92,367)	(58,228)
Changes in non-cash working capital balances	20	5,179	753
Net cash used in investing activities		(87,188)	(57,475)
Financing activity			
Dividends paid	11	(85,700)	(160,200)
Net cash used in financing activity		(85,700)	(160,200)
Net increase in cash		4,211	7,630
Cash, beginning of the year		27,690	20,060
Cash, end of the year		31,901	27,690

See accompanying notes

NALCOR ENERGY - OIL AND GAS INC.

NOTES TO THE FINANCIAL STATEMENTS

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 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

2.1 Statement of Compliance and Basis of Measurement

These annual audited financial statements (financial statements) have been prepared in accordance with IFRS® Accounting Standards, as issued by the International Accounting Standards Board (IASB).

These 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 financial statements were approved by the Oil and Gas' Board of Directors (the Board) on March 4, 2025.

2.2 Cash and Cash Equivalents

Cash consists of amounts on deposit with Schedule 1 Canadian chartered banks.

2.3 Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes expenditures incurred in acquiring the inventories and bringing them to their existing condition and location. The cost of crude oil is based on production costs and an estimated capital component based on depletion. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

2.4 Property, Plant and Equipment

Petroleum and Natural Gas Properties

Petroleum and natural gas development and production assets are carried at cost less accumulated depreciation, depletion and impairment. Development and production assets are grouped into cash-generating units (CGUs) for impairment testing.

Expenditures on the construction, installation or completion of infrastructure facilities such as processing facilities and the drilling of development wells, including unsuccessful development or delineation wells, are capitalized within property, plant and equipment, as long as it is technically feasible and economically viable to extract identified reserves.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning costs and, for qualifying assets, borrowing costs. The purchase price or constructed cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Capitalized petroleum and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis.

Gains and losses on disposal of an item of property, plant and equipment, including petroleum and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recorded in other expense.

NALCOR ENERGY - OIL AND GAS INC.

NOTES TO THE FINANCIAL STATEMENTS

Costs incurred subsequent to the determination of technical feasibility and commercial viability are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to Oil and Gas and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Routine repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depletion

The net carrying value of development and production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proved and probable reserves, and considering estimated future development costs necessary to bring those reserves into production. Future development costs are estimated, taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers, at least annually.

Proved and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate, with a specified degree of certainty, to be recoverable in future years from known reservoirs and which are considered commercially viable. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

Such reserves are considered commercially producible when management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all (or substantially all) the expected petroleum and natural gas production; and
- evidence that the necessary production, transshipment and transportation facilities are available or can be made available.

2.5 Impairment of Non-Financial Assets

Property, plant and equipment and other non-financial assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Where it is not possible to estimate the recoverable amount of an individual asset, Oil and Gas estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs. The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from non-financial assets.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount and an impairment loss is recognized immediately in the Statement of Profit and Comprehensive Income.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in the Statement of Profit and Comprehensive Income.

2.6 Investments in Joint Arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. Control exists when Oil and Gas has the power, directly or indirectly, to govern the financial and operating policies of another entity, so as to obtain benefits from its activities. A joint arrangement is either classified as a joint operation or a joint venture based on the rights of the parties involved.

Oil and Gas holds interests in the Hebron, HSE and White Rose Extension projects. These projects are classified as joint operations as multiple parties hold joint control and stakeholders have rights to the project assets and obligations for its liabilities. Oil and Gas accounts for its oil and gas investments by recognizing its share of assets, liabilities and profit or loss in relation to its interest in the joint operation.

2.7 Provisions

A provision is a liability of uncertain timing or amount. A provision is recognized if Oil and Gas has a present legal obligation or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. The provision is measured at the present value of the best estimate of the expenditures expected to be required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Provisions are remeasured at each Statement of Financial Position date using the current discount rate.

2.8 Decommissioning, Restoration and Environmental Liabilities

Legal and constructive obligations associated with the retirement of property, plant and equipment are recorded as liabilities when those obligations are incurred and are measured as the present value of the expected costs to settle the liability, discounted at a rate specific to the liability. The liability is accreted up to the date the liability will be incurred with a corresponding charge to net finance expense. The carrying amount of decommissioning, restoration and environmental liabilities is reviewed annually with changes in the estimates of timing or amount of cash flows added to or deducted from the cost of the related asset or expensed in the Statement of Profit and Comprehensive Income if the liability is short-term in nature.

2.9 Revenue Recognition

Revenue from the sale of crude oil is recognized when the amount of revenue can be reasonably measured, the significant risks and rewards of ownership have passed to the buyer and collection is reasonably assured. This typically occurs when the oil has been produced and delivered to the buyer in accordance with contracted shipping terms.

Revenue from properties in which Oil and Gas has an interest with other producers is recognized on the basis of Oil and Gas' sales to customers. Under this method, when Oil and Gas sells less crude oil production than its net working interest (under-lift), it has a right to future production of the joint operation and the under-lift portion is recognized as inventories not yet received and production expenses measured at cost. Similarly, the over-lift portion is recognized as a liability that represents an accrual for crude oil production received but not yet paid measured at cost.

2.10 Foreign Currencies

Transactions in currencies other than Oil and Gas' functional currency (foreign currencies) are recognized using the exchange rate in effect at the date of transaction, approximated by the prior month end close rate. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates of exchange in effect at the period end date. Foreign exchange gains and losses are included in the Statement of Profit and Comprehensive Income as other expense.

2.11 Income Taxes

Oil and Gas is exempt from paying income taxes under Paragraph 149(1) (d.2) of the Income Tax Act.

2.12 Financial InstrumentsClassification and Initial Measurement

Financial assets and financial liabilities are recognized in the Statement of Financial Position when Oil and Gas becomes a party to the contractual provisions of the instrument and are initially measured at fair value.

Financial assets are classified at amortized cost, FVTPL, fair value through other comprehensive income (FTVOCI) or as derivatives designated as hedging instruments in an effective hedge. Financial liabilities are classified at FVTPL, amortized cost or as derivatives designated as hedging instruments in an effective hedge. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial Assets at Amortized Cost

Financial assets with contractual cash flows arising on specified dates, consisting solely of principal and interest, and that are held within a business model whose objective is to collect the contractual cash flows are subsequently measured at amortized cost using the effective interest rate method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Oil and Gas' financial assets at amortized cost include cash and trade and other receivables.

Financial Assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost are measured at FVTPL. Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship.

Oil and Gas' financial assets measured at FVTPL include derivative instruments not part of a designated hedging relationship.

Financial Liabilities at Amortized Cost

Oil and Gas subsequently measures all financial liabilities at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liability is derecognized.

Oil and Gas' financial liabilities at amortized cost include trade and other payables and long-term payables.

Financial Liabilities at FVTPL

Financial liabilities that do not meet the criteria for being measured at amortized cost are measured at FVTPL. Financial liabilities at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of designated hedging relationship.

Oil and Gas' financial liabilities measured at FVTPL include derivative instruments not part of a designated hedging relationship.

Derecognition of Financial Instruments

Oil and Gas derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

Oil and Gas derecognizes financial liabilities when, and only when, its obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Impairment of Financial Assets

Oil and Gas recognizes a loss allowance for expected credit losses (ECL) on investments in debt instruments that are measured at amortized cost. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

Oil and Gas always recognizes lifetime ECL for trade and other receivables. The ECL on these financial assets are estimated based on Oil and Gas' historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. Oil and Gas also records 12-month ECL for those financial assets which have low credit risk and where the low credit risk exemption has been applied. The class of financial assets that has been identified to have low credit risk is cash.

For all other financial instruments, Oil and Gas recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, Oil and Gas measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Hedges

Oil and Gas may choose to designate derivative instruments as hedges and apply hedge accounting if there is an economic relationship between the hedged item and the hedging instrument; the effect of credit risk does not dominate the value changes that result from that economic relationship; and the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that Oil and Gas actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. Oil and Gas formally documents all hedges and the related risk management objectives at the inception of the hedge. Derivative instruments that have been designated and qualify for hedge accounting are classified as either cash flow or fair value hedges.

The effective portion of the gain or loss on a cash flow hedging instrument is recognized directly in other comprehensive income (loss), while any ineffective portion is recognized immediately in the Statement of Profit and Comprehensive Income for the period in other expense. Amounts recognized in other comprehensive income are transferred to the Statement of Profit and Comprehensive Income for the period when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs.

Oil and Gas does not currently hold any cash flow or fair value hedges.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the financial statements in conformity with IFRS Accounting Standards requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ materially from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is reviewed if the revision affects only that period or future periods.

3.1 Use of Judgments**(i) Asset Impairment and Reversals**

Oil & Gas applies judgment in evaluating impairment and impairment reversal indicators based on various internal and external factors.

The recoverable amount of a CGU or asset is determined based on the higher of fair value less costs of disposal and its value in use. Management uses factors including expected future oil and gas prices, reserves evaluated by independent reserve engineers, and discount rates to determine the recoverable amount, as well as, judgments regarding the occurrence of future events. Changes in these factors will affect the recoverable amount of CGUs and assets, which may result in a material adjustment to their carrying value and volatility in the Company's Comprehensive Statement of Profit and Loss.

(ii) Property, Plant and Equipment

Oil and Gas' accounting policy relating to property, plant and equipment is described in Note 2.4. In applying this policy, judgment is used in determining whether certain costs are additions to the carrying amount of the property, plant and equipment as opposed to repairs and maintenance. If an asset has been developed, judgment is required to identify the point at which the asset is capable of being used as intended. Judgment is also used in determining the appropriate componentization structure for Oil and Gas' property, plant and equipment.

(iii) Functional Currency

Functional currency was determined by evaluating the primary economic environment in which Oil and Gas operates. As Oil and Gas enters into transactions in multiple currencies, judgment is used in determining the functional currency. Management considered factors regarding currency of sales, costs incurred, and operating and financing activities and determined the functional currency to be CAD.

(iv) Determination of CGUs

Oil and Gas' accounting policy relating to impairment of non-financial assets is described in Note 2.5. In applying this policy, Oil and Gas groups assets into the smallest identifiable groups for which cash flows are largely independent of the cash flows from other assets or groups of assets. Judgment is used in determining the level at which cash flows are largely independent of other assets or groups of assets.

(v) Discount Rates

Certain of Oil and Gas' financial liabilities are discounted using discount rates that are subject to Management's judgment.

3.2 Use of Estimates**(i) Property, Plant and Equipment**

Amounts recorded for depreciation are based on the useful lives of Oil and Gas' assets. The useful lives of property, plant and equipment are determined in relation to the proved and probable reserves and reviewed annually by Oil and Gas. These useful lives are Management's best estimate of the service lives of these assets. Changes to these lives could materially affect the amount of depreciation recorded.

(ii) Oil and Natural Gas Reserves

Oil and natural gas reserves are evaluated by independent reserve engineers. Reserve estimates are used in calculating depletion, impairment and decommissioning liabilities. Estimates of recoverable reserves are based upon variable factors and assumptions regarding historical production, production rates, ultimate reserve recovery, marketability of petroleum and natural gas and timing and amount of future cash expenditures. Changes to these amounts could materially affect these calculations.

(iii) Decommissioning Liabilities

Oil and Gas recognizes a liability for the fair value of the future expenditures required to settle obligations associated with the retirement of property, plant and equipment. Decommissioning liabilities are recorded as a liability at fair

value, with a corresponding increase to property, plant and equipment. Accretion of decommissioning liabilities is included in the Statement of Profit and Comprehensive Income through net finance expense. Differences between the recorded decommissioning liabilities and the actual decommissioning costs incurred are recorded as a gain or loss in the settlement period.

4. CURRENT AND FUTURE CHANGES IN ACCOUNTING POLICIES

The following is a list of applicable standards/interpretations that have been issued and are effective for accounting periods commencing on or after January 1, 2024, as specified.

- *Amendments to IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current and Non-Current Liabilities with Covenants*¹
- *IFRS 18 – Presentation and Disclosures in Financial Statements*²

¹ Effective for annual periods beginning on or after January 1, 2024.

² Effective for annual periods beginning on or after January 1, 2027, with earlier application permitted.

4.1 Amendments to IAS 1 – Presentation of Financial Statements– Classification of Liabilities as Current or Non-Current and Non-Current Liabilities with Covenants

The IASB issued amendments to IAS 1 to promote consistency in applying the requirements by helping companies determine whether, in the Statement of Financial Position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The classification is based on rights that are in existence at the end of the reporting period and specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. Additional information was added to clarify that only covenants with which an entity is required to comply on or before the reporting date affect the classification of a liability as current or non-current. In addition, an entity has to disclose information in the notes that enables users of the financial statements to understand the risk that non-current liabilities with covenants could become repayable within 12 months. The amendments are applied retrospectively upon adoption. The application of these amendments did not have a material impact on Oil and Gas' financial statements.

4.2 IFRS 18 – Presentation and Disclosures in Financial Statements

IFRS 18 replaces IAS 1, carrying forward many of the requirements of IAS 1 unchanged and introducing new requirements to present specified categories and defined subtotals in the statement of profit or loss. As well, entities will be required to provide disclosures on management-defined performance measures in the notes to the financial statements and improve aggregation and disaggregation. In addition, some IAS 1 paragraphs have been moved to *IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors* and *IFRS 7 - Financial Instruments: Disclosure*. Furthermore, the IASB has made minor amendments to *IAS 7 – Statement of Cash Flows*.

An entity is required to apply IFRS 18 for annual reporting periods beginning on or after 1 January 2027, with earlier application permitted. The amendments to IAS 7, as well as the revised IAS 8 and IFRS 7, become effective when an entity applies IFRS 18. IFRS 18 requires retrospective application with specific transition provisions. Management is currently assessing the potential impact on Oil and Gas' financial statements.

NALCOR ENERGY - OIL AND GAS INC.**NOTES TO THE FINANCIAL STATEMENTS****5. TRADE AND OTHER RECEIVABLES**

<i>As at December 31 (thousands of Canadian dollars)</i>		2024	2023
Trade receivables		36,848	21,371
Other receivables	(a)	604	454
Due from related parties		5,762	5,760
Loss allowance	17	(5,732)	(5,732)
		37,482	21,853

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

<i>As at December 31 (thousands of Canadian dollars)</i>		2024	2023
0-60 days		37,451	21,825
60+ days		31	28
		37,482	21,853

<i>As at December 31 (thousands of Canadian dollars)</i>		2024	2023
Loss allowance, beginning of the year		(5,732)	(5,732)
Change in balance during the year		-	-
Loss allowance, end of the year		(5,732)	(5,732)

6. INVENTORIES

Inventories consist of crude oil, materials and supplies to be consumed during production at Oil and Gas' petroleum and natural gas properties.

<i>As at December 31 (thousands of Canadian dollars)</i>		2024	2023
Materials		13,708	14,264
Crude oil		4,501	2,113
		18,209	16,377

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7. PROPERTY, PLANT AND EQUIPMENT

	Petroleum and Natural Gas Properties (Note 21)
<i>(thousands of Canadian dollars)</i>	
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
Additions	92,367
Decommissioning liability revisions	(485)
Balance at December 31, 2024	1,742,518
Depreciation, depletion and impairment	
Balance at January 1, 2023	884,079
Depreciation and depletion	84,327
Impairment reversal	(45,866)
Balance at December 31, 2023	922,540
Depreciation and depletion	52,649
Impairment	19,626
Balance at December 31, 2024	994,815
Carrying value	
Balance at January 1, 2023	718,799
Balance at December 31, 2023	728,096
Balance at December 31, 2024	747,703

On a quarterly basis, the Company assesses its Cash Generating Units (CGUs) for indicators that events or changes in circumstances may have impacted the recoverable amount of the associated assets. The Company determines the recoverable amount of its CGUs using value in use, which is estimated using discounted future cash flows based on forecasted oil prices, forecasted remaining reserves, forecasted future operating and capital costs and a discount rate derived from post-tax weighted average cost of capital, adjusted to reflect specific risks to the CGUs. For the year ended December 31, 2024, the Company recognized an impairment of \$19.6 million (2023 – net reversal of \$45.9 million). The impairment is related to the White Rose Extension due to decrease in oil and gas price forecasts, increased capital expenditures on the West White Rose Wellhead project and revised cash flow cost estimates and reserves as the field lives mature.

8. TRADE AND OTHER PAYABLES

<i>As at December 31 (thousands of Canadian dollars)</i>		2024	2023
Trade payables and accruals		16,157	10,824
Due to related parties	17	10,487	1,404
Other payables	(a)	2,721	3,059
		29,365	15,287

(a) Other payables are comprised of HST.

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9. DECOMMISSIONING LIABILITIES

Oil and Gas' decommissioning liabilities result from net ownership interests in petroleum and natural gas properties and related well sites. The total undiscounted estimated cash flows required to settle the obligations, including a rate of inflation of 2%, at December 31, 2024 are \$162.7 million (2023 - \$165.4 million). Payments to settle the liabilities are expected to occur between 2039 and 2040. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at rates ranging from 4.7% to 5.1% (2023 - 5.3% to 5.4%). The reconciliation of the beginning and ending amounts of decommissioning liabilities is as follows:

<i>As at December 31 (thousands of Canadian dollars)</i>	2024	2023
Decommissioning liabilities, beginning of the year	73,667	79,601
Accretion	3,923	4,536
Revisions	(485)	(10,470)
Decommissioning liabilities, end of the year	77,105	73,667

10. LONG-TERM PAYABLES

Long term payables are comprised of a payable as a result of First Redetermination under the 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 triggered the re-balancing of historic barrels of oil, which was settled by a clawback of a pre-determined percentage of entitled production. The repayment was fully completed in June 2024 and there is no balance remaining at December 31, 2024 (2023 - \$14.9 million).

<i>As at December 31 (thousands of Canadian dollars)</i>	2024	2023
Long-term payables, beginning of the year	14,909	43,337
Accretion	47	347
Revisions	4	(1,483)
Settlements	(14,960)	(27,292)
Long-term payables, end of the year	-	14,909
Less: current portion	-	(14,909)
	-	-

11. SHAREHOLDER'S EQUITY

11.1 Share Capital

<i>As at December 31 (thousands of Canadian dollars)</i>	2024	2023
Common shares without nominal or par value		
Authorized - unlimited		
Issued, fully paid and outstanding - 100	110,000	110,000

11.2 Dividends

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	2024	2023
Declared and paid during the year	85,700	160,200

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12. OPERATING COSTS

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	2024	2023
Professional services	4,242	4,253
Salaries and benefits	149	148
Other operating costs	93	114
Insurance	38	50
Total operating costs	4,522	4,565

13. PRODUCTION, MARKETING AND TRANSPORTATION COSTS

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	2024	2023
Project operating costs	28,792	22,544
Transportation and transshipment	8,058	7,739
Insurance	1,529	1,132
Processing and marketing	490	1,027
Total production, marketing and transportation costs	38,869	32,442

14. NET FINANCE EXPENSE

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	2024	2023
Finance income		
Other interest income	(2,382)	(2,546)
Finance expense		
Accretion	3,970	4,883
Other finance expense	109	191
	4,079	5,074
Net finance expense	1,697	2,528

15. OTHER INCOME

<i>For the year ended December 31 (thousands of Canadian dollars)</i>		2024	2023
HSE Redetermination re-balancing adjustment	(a)	(23,123)	(45,759)
Settlement of commodity swaps		-	(8,797)
Settlement of foreign exchange forwards		(240)	4,961
Other		(3,676)	1,673
Total other income		(27,039)	(47,922)

(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, that was fully repaid in June 2024, as disclosed in Note 10.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

16.1 Fair Value

The estimated fair values of financial instruments as at December 31, 2024 and 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

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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.

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 year. There were no transfers between Level 1, 2 and 3 fair value measurements for the years ended December 31, 2024 and 2023.

As at December 31, 2024, the Company did not have any Level 2 or Level 3 instruments. As at December 31, 2023, the Company did not have any Level 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>(thousands of Canadian dollars)</i>		December 31, 2024		December 31, 2023	
Financial assets					
Derivative assets	2	-	-	273	273
Financial liabilities					
Derivative liabilities	2	-	-	8,167	8,167
Current portion of long-term payables	2	-	-	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.

16.2 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.

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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.

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 (2023 - \$40.0 million) unsecured demand operating facility with the Company's bank. As at December 31, 2024, Oil and Gas had no borrowings outstanding on the credit facility (2023 - \$nil), and \$16.4 million of the borrowing limit had been used to issue two irrevocable letters of credit (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.

The following are contractual maturities of Oil and Gas' financial liabilities, including principal and interest as at December 31, 2024:

<i>(thousands of Canadian dollars)</i>	< 1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	29,365		-	-	29,365

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 and any potential new or revised tariffs.

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 flow 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.

During 2024, total oil sales denominated in USD were \$175.9 million (2023 - \$196.7 million).

As the commodity price and foreign exchange contracts were designated as hedging instruments, change in fair value was recorded in other comprehensive income. During 2024, \$0.2 million in realized gains (2023 - \$3.8 million in realized gains) have been recorded in other income and no unrealized gains or losses (2023 - \$0.3 million in unrealized gains) remain in other comprehensive income.

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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, 2024	273	(8,167)	(7,894)
Changes to profit (loss)			
Redetermination Change in Fair Value	-	8,167	8,167
Total	-	8,167	8,167
Changes in other comprehensive loss			
Mark-to-market	(33)	-	(33)
Settlements realized in profit (loss)	(240)	-	(240)
Total	(273)	-	(273)
Balance at December 31, 2024	-	-	-
Balance at January 1, 2023	(345)	(25,151)	(25,496)
Changes to profit (loss)			
Redetermination Change in Fair Value	-	16,984	16,984
Total	-	16,984	16,984
Changes in other comprehensive loss			
Mark-to-market	4,454	-	4,454
Settlements realized in profit (loss)	(3,836)	-	(3,836)
Total	618	-	618
Balance at December 31, 2023	273	(8,167)	(7,894)

There were no remaining derivative liabilities as at December 31, 2024 related to an embedded derivative associated with the HSE Redetermination liability which was recorded in the current portion of long-term payables (2023 - \$8.2 million). The embedded derivative represented the change in fair value of the liability based on then current forward oil prices with the offsetting unrealized gain or loss recorded in other income.

17. 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 (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

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

<i>As at December 31 (thousands of Canadian dollars)</i>		2024	2023
Trade and other receivables:			
Other related parties (a)		5,762	5,760
Trade and other payables:			
The Province (b)		10,191	1,104
Parent		292	298
Other related parties		4	2

<i>For the year ended December 31 (thousands of Canadian dollars)</i>		2024	2023
Royalties:			
The Province (b)		(25,191)	(14,401)
Operating costs:			
Other related parties		4,200	4,200

(a) Included in trade and other receivables as at December 31, 2024 and 2023 is \$5.7 million owing from Bull Arm Fabrication and Oil and Gas Corporation of Newfoundland and Labrador. The balance was allowed for in its entirety during 2021.

(b) During 2024, Oil and Gas incurred \$25.3 million (2023 - \$14.9 million) in royalty expenses of which \$25.2 million (2023 - \$14.4 million) were paid to the Province and \$0.1 million paid to Federal Government (2023 - \$0.5 million). Royalties payable at the end of year were \$10.2 million (2023 - \$1.1 million) of which were fully owed to the Province.

18. COMMITMENTS AND CONTINGENCIES

(a) 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.

(b) Oil and Gas has the following commitments as a result of its joint venture partnerships:

<i>(millions of Canadian dollars)</i>	Capital and Operating
2025	\$13.4
2026	\$9.2
2027	\$6.5
2028	\$6.1
2029	\$5.2
Thereafter	\$10.1

19. CAPITAL MANAGEMENT

Oil and Gas' objective when managing capital is to maintain the ability to fund operating costs and expenditures related to development and production assets, on a timely basis. Oil and Gas maintains an unsecured demand credit facility, which is available to finance operations in the short-term. Long-term capital includes share capital and shareholder contributions. Additional requirements will be funded through Oil and Gas' unsecured demand credit facility.

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20. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	2024	2023
Trade and other receivables	(15,629)	16,634
Inventories	3,710	(6,979)
Prepayments	2,204	977
Trade and other payables	14,078	(3,218)
Changes in non-cash working capital balances	4,363	7,414
Related to:		
Operating activities	(816)	6,661
Investing activities	5,179	753
	4,363	7,414

21. PRIOR PERIOD ADJUSTMENT

The comparative figures have been restated as a result of a misstatement of contingent reserves in 2023, which relate to the reversal of impairment of White Rose Extension in 2023.

The following table summarizes the adjustments from the previously issued December 31, 2023 financial statements to the current year comparative figures:

Statement of Financial Position

<i>As at December 31, 2023 (thousands of Canadian dollars)</i>	As previously reported	Adjustment	As restated
Property, plant and equipment	741,874	(13,778)	728,096
Deficit	(313,350)	(13,778)	(327,128)

Statement of Profit and Comprehensive Income

<i>For the year ended December 31, 2023 (thousands of Canadian dollars)</i>	As previously reported	Adjustment	As restated
Depreciation, depletion and impairment	29,640	13,778	43,418
Profit for the year	229,880	(13,778)	216,102
Total comprehensive income for the year	230,498	(13,778)	216,720

Statement of Changes in Equity

<i>(thousands of Canadian dollars)</i>	As previously reported	Adjustment	As restated
Profit for the year	229,880	(13,778)	216,102
Total comprehensive income for the year	230,498	(13,778)	216,720

22. SUBSEQUENT EVENT

Effective January 1, 2025, Hydro and Nalcor were legislatively amalgamated into a new legal corporation that will continue under the name "Newfoundland and Labrador Hydro". The amalgamated corporation holds the combined assets and liabilities of the former Hydro and Nalcor entities and is bound by any previously existing contracts and agreements from the former entities. As well, the legislation confirms the continuation of any security or guarantees provided by the Provincial Government to Nalcor with Hydro.