

NALCOR ENERGY - OIL AND GAS INC.
CONDENSED INTERIM FINANCIAL STATEMENTS
June 30, 2025
(Unaudited)

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

<i>As at (thousands of Canadian dollars)</i>	<i>Notes</i>	June 30 2025	December 31 2024
ASSETS			
Current assets			
Cash		60,515	31,901
Trade and other receivables		23,493	37,482
Inventories		16,873	18,209
Prepayments		3,015	4,433
Total current assets		103,896	92,025
Non-current assets			
Property, plant and equipment	3	728,328	747,703
Other long-term assets		361	361
Total assets		832,585	840,089
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	4	39,036	29,365
Total current liabilities		39,036	29,365
Non-current liabilities			
Decommissioning liabilities		79,051	77,105
Total liabilities		118,087	106,470
Shareholder's equity			
Share capital		110,000	110,000
Shareholder contributions		906,112	906,112
Deficit		(301,614)	(282,493)
Total equity		714,498	733,619
Total liabilities and equity		832,585	840,089

Commitments and contingencies (Note 11)

See accompanying notes

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

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Six months ended	
		2025	2024	2025	2024
Petroleum and natural gas sales		81,849	54,893	150,877	107,892
Royalties	10	(22,352)	(4,470)	(36,746)	(7,294)
Revenue, net		59,497	50,423	114,131	100,598
Operating costs	6	1,219	1,103	2,323	2,297
Production, marketing and transportation costs		6,315	7,003	13,656	20,626
Depreciation, depletion and impairment		55,721	10,311	69,109	23,358
Net finance expense	7	139	526	656	964
Other expense (income)	8	2,710	(12,286)	3,408	(24,569)
Expenses		66,104	6,657	89,152	22,676
(Loss) profit for the period		(6,607)	43,766	24,979	77,922
Other comprehensive loss					
Total items that may or have been reclassified to profit or loss:					
Net fair value gains (losses) on cash flow hedges		-	240	-	(33)
Reclassification adjustments related to:					
Cash flow hedges recognized in profit or loss		-	(240)	-	(240)
Other comprehensive loss for the period		-	-	-	(273)
Total comprehensive (loss) income for the period		(6,607)	43,766	24,979	77,649

See accompanying notes

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

	Notes	Share Capital	Shareholder Contributions	Fair Value Reserve	Deficit	Total
<i>(thousands of Canadian dollars)</i>						
Balance at January 1, 2025		110,000	906,112	-	(282,493)	733,619
Profit for the period		-	-	-	24,979	24,979
Total comprehensive income for the period		-	-	-	24,979	24,979
Dividends	5	-	-	-	(44,100)	(44,100)
Balance at June 30, 2025		110,000	906,112	-	(301,614)	714,498

Balance at January 1, 2024		110,000	906,112	273	(327,128)	689,257
Profit for the period		-	-	-	77,922	77,922
Other comprehensive loss		-	-	(273)	-	(273)
Total comprehensive income for the period		-	-	(273)	77,922	77,649
Dividends	5	-	-	-	(57,100)	(57,100)
Balance at June 30, 2024		110,000	906,112	-	(306,306)	709,806

See accompanying notes

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

		Three months ended		Six months ended	
<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Notes	2025	2024	2025	2024
Operating activities					
(Loss) Profit for the period		(6,607)	43,766	24,979	77,922
Adjustments to reconcile profit to cash provided from operating activities:					
Depreciation, depletion and impairment		55,721	10,311	69,109	23,358
Finance income	7	(745)	(548)	(1,308)	(1,128)
Finance expense	7	884	1,074	1,964	2,092
Hibernia South Extension (HSE) Redetermination adjustment	8	-	(11,914)	-	(23,123)
		49,253	42,689	94,744	79,121
Changes in non-cash working capital balances	12	12,540	8,639	19,343	15,030
Interest received		745	548	1,308	1,128
Interest paid		(11)	(81)	(18)	(84)
Net cash provided from operating activities		62,527	51,795	115,377	95,195
Investing activities					
Additions to property, plant and equipment	3	(25,961)	(24,827)	(48,020)	(37,599)
Changes in non-cash working capital balances	12	1,176	9,290	5,357	10,553
Net cash used in investing activities		(24,785)	(15,537)	(42,663)	(27,046)
Financing activity					
Dividends paid	5	(38,600)	(20,200)	(44,100)	(57,100)
Net cash used in financing activity		(38,600)	(20,200)	(44,100)	(57,100)
Net (decrease) increase in cash		(858)	16,058	28,614	11,049
Cash, beginning of the period		61,373	22,681	31,901	27,690
Cash, end of the period		60,515	38,739	60,515	38,739

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 on August 12, 2008 under the laws of the Province 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 Newfoundland and Labrador Hydro (Hydro). 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.

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

2. MATERIAL ACCOUNTING POLICIES

Statement of Compliance and Basis of Measurement

These condensed interim financial statements have been prepared in accordance with International Accounting Standard *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, 2024.

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. 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 Hydro, which approved the condensed interim financial statements on August 14, 2025.

NALCOR ENERGY - OIL AND GAS INC.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

3. PROPERTY, PLANT AND EQUIPMENT

	Petroleum and Natural Gas Properties
<i>(thousands of Canadian dollars)</i>	
Cost	
Balance at January 1, 2024	1,650,636
Additions	92,367
Decommissioning liability revisions	(485)
Balance at December 31, 2024	1,742,518
Additions	48,020
Balance at June 30, 2025	1,790,538
Depreciation, depletion and impairment	
Balance at January 1, 2024	922,540
Depreciation and depletion	52,649
Impairment	19,626
Balance at December 31, 2024	994,815
Depreciation and depletion	33,976
Impairment	33,419
Balance at June 30, 2025	1,062,210
Carrying value	
Balance at January 1, 2024	728,096
Balance at December 31, 2024	747,703
Balance at June 30, 2025	728,328

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 period ended June 30, 2025, the Company recognized an impairment of \$33.4 million (December 31, 2024 – impairment of \$19.6 million), due to reduced pricing forecasts.

4. TRADE AND OTHER PAYABLES

		June 30 2025	December 31 2024
<i>As at (thousands of Canadian dollars)</i>			
Trade payables and accruals		21,082	16,157
Due to related parties	10	13,911	10,487
Other payables	(a)	4,043	2,721
		39,036	29,365

(a) Other payables are comprised of HST.

NALCOR ENERGY - OIL AND GAS INC.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

5. SHAREHOLDER'S EQUITY

Dividends

	Three months ended		Six months ended	
<i>For the period ended June 30 (thousands of Canadian dollars)</i>	2025	2024	2025	2024
Declared and paid during the period	38,600	20,200	44,100	57,100

6. OPERATING COSTS

	Three months ended		Six months ended	
<i>For the period ended June 30 (thousands of Canadian dollars)</i>	2025	2024	2025	2024
Professional services	1,064	1,050	2,129	2,114
Other operating costs	130	(3)	132	93
Salaries and benefits	15	46	43	71
Insurance	10	10	19	19
Total operating costs	1,219	1,103	2,323	2,297

7. NET FINANCE EXPENSE

	Three months ended		Six months ended	
<i>For the period ended June 30 (thousands of Canadian dollars)</i>	2025	2024	2025	2024
Finance income				
Other interest income	745	548	1,308	1,128
	745	548	1,308	1,128
Finance expense				
Accretion	873	993	1,946	2,008
Other finance expense	11	81	18	84
	884	1,074	1,964	2,092
Net finance expense	139	526	656	964

8. OTHER EXPENSE (INCOME)

	Three months ended		Six months ended	
<i>For the period ended June 30 (thousands of Canadian dollars)</i>	2025	2024	2025	2024
HSE Redetermination adjustment	-	(11,914)	-	(23,123)
Other	2,710	(372)	3,408	(1,446)
Total other expense (income)	2,710	(12,286)	3,408	(24,569)

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

9.1 Fair Value

The estimated fair values of financial instruments as at June 30, 2025 and December 31, 2024 are based on relevant market prices and information available at the time. Fair value estimates are based on valuation techniques which are significantly affected by the assumptions used including the amount and timing of future cash flows and discount rates reflecting various degrees of risk. As such, the fair value estimates below are not necessarily indicative of the amounts that 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 disclosed do not reflect the fair value of Oil and Gas as a whole.

NALCOR ENERGY - OIL AND GAS INC.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

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 period. There were no transfers between Level 1, 2 and 3 fair value measurements for the period ended June 30, 2025 and the year ended December 31, 2024.

As at June 30, 2025 and December 31, 2024, the Company did not have any Level 2 or Level 3 instruments.

The fair value of cash, trade and other receivables, and trade and other payables approximate their carrying values due to their short-term maturity.

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.

Liquidity Risk

Oil and Gas is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. 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, 2024 - \$40.0 million) unsecured demand operating facility with the Company's bank. As at June 30, 2025, Oil and Gas had no borrowings outstanding on the credit facility (December 31, 2024 - \$nil), and \$17.1 million of the borrowing limit had been used (December 31, 2024 - \$16.4 million) to ensure compliance with service agreements and regulations relating to petroleum and natural gas exploration and production activities.

NALCOR ENERGY - OIL AND GAS INC.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

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. For the period ended June 30, 2025, total oil sales denominated in USD were \$106.8 million (USD) (June 30, 2024 - \$79.6 million (USD)).

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
Hydro	100% shareholder of Oil and Gas
The Province	100% shareholder of Hydro
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

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>		June 30 2025	December 2024
Trade and other receivables:			
Other related parties	(a)	5,762	5,762
Trade and other payables:			
The Province	Note 4 (b)	13,617	10,191
Parent		290	292
Other related parties		4	4

		Three months ended		Six months ended	
<i>For the period ended June 30 (thousands of Canadian dollars)</i>		2025	2024	2025	2024
Royalties:					
The Province	(b)	(21,636)	(4,484)	(35,659)	(7,308)
Operating costs:					
Other related parties		1,050	1,050	2,100	2,100

(a) Included in trade and other receivables as at June 30, 2025 and 2024 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.

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

(b) During the period June 30, 2025, Oil and Gas incurred \$36.8 million (June 30, 2024 - \$7.3 million) in royalty expenses of which \$35.7 million (June 30, 2024 - \$7.3 million) were paid to the Province and \$1.1 million paid to Federal Government (June 30, 2024 - \$nil). Royalties payable at June 30, 2025 were \$13.6 million (2024 - \$10.2 million), which were fully owed to the Province.

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

	Three months ended		Six months ended	
<i>For the period ended June 30 (thousands of Canadian dollars)</i>	2025	2024	2025	2024
Trade and other receivables	15,898	11,383	13,989	9,139
Inventories	875	694	(378)	1,257
Prepayments	690	3,966	1,418	3,255
Trade and other payables	(3,747)	1,886	9,671	11,932
Changes in non-cash working capital balances	13,716	17,929	24,700	25,583
Related to:				
Operating activities	12,540	8,639	19,343	15,030
Investing activities	1,176	9,290	5,357	10,553
	13,716	17,929	24,700	25,583