

NALCOR ENERGY - OIL AND GAS INC.
FINANCIAL STATEMENTS
December 31, 2025

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, 2025, 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, 2025, 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.

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.

The logo for Deloitte LLP, featuring the word "Deloitte" in a cursive script followed by "LLP" in a plain sans-serif font.

Chartered Professional Accountants
March 17, 2026


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

<i>As at December 31 (thousands of Canadian dollars)</i>	Notes	2025	2024
ASSETS			
Current assets			
Cash		40,052	31,901
Trade and other receivables	5	38,073	37,482
Inventories	6	18,459	18,209
Prepayments		1,194	4,433
Total current assets		97,778	92,025
Non-current assets			
Property, plant and equipment	7	749,761	747,703
Other long-term assets		361	361
Total assets		847,900	840,089
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	8	26,512	29,365
Total current liabilities		26,512	29,365
Non-current liabilities			
Decommissioning liabilities	9	88,678	77,105
Total liabilities		115,190	106,470
Shareholder's equity			
Share capital	10	110,000	110,000
Shareholder contributions		906,112	906,112
Deficit		(283,402)	(282,493)
Total equity		732,710	733,619
Total liabilities and equity		847,900	840,089

Commitments and contingencies (Note 17)

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>	Notes	2025	2024
Petroleum and natural gas sales		308,052	240,463
Royalties	16	(77,760)	(25,346)
Revenue, net		230,292	215,117
Operating costs	11	4,263	4,522
Production, marketing and transportation costs	12	30,985	38,869
Depreciation, depletion and impairment		93,105	66,733
Net finance expense	13	1,613	1,697
Other expense (income)	14	2,635	(27,039)
Expenses		132,601	84,782
Profit for the year		97,691	130,335
Other comprehensive loss			
Total items that may or have been reclassified to profit or loss:			
Net fair value loss on cash flow hedges		-	(33)
Reclassification adjustments related to:			
Cash flow hedges recognized in profit or loss		-	(240)
Other comprehensive loss for the year		-	(273)
Total comprehensive income for the year		97,691	130,062

See accompanying notes

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

(thousands of Canadian dollars)

	Notes	Share Capital	Shareholder Contributions	Fair Value Reserve	Deficit	Total
Balance at January 1, 2025		110,000	906,112	-	(282,493)	733,619
Total profit and comprehensive income for the year		-	-	-	97,691	97,691
Dividends	10	-	-	-	(98,600)	(98,600)
Balance at December 31, 2025		110,000	906,112	-	(283,402)	732,710
Balance at January 1, 2024		110,000	906,112	273	(327,128)	689,257
Total profit and comprehensive loss for the year		-	-	(273)	130,335	130,062
Dividends	10	-	-	-	(85,700)	(85,700)
Balance at December 31, 2024		110,000	906,112	-	(282,493)	733,619

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	2025	2024
Operating activities			
Profit for the year		97,691	130,335
Adjustments to reconcile profit to cash provided from operating activities:			
Depreciation, depletion and impairment		93,105	66,733
Finance income	13	(2,436)	(2,382)
Finance expense	13	4,049	4,079
Hibernia South Extension (HSE) Redetermination adjustment	14	-	(23,123)
		192,409	175,642
Changes in non-cash working capital balances	19	3,169	(816)
Interest received		2,436	2,382
Interest paid		(156)	(109)
Net cash provided from operating activities		197,858	177,099
Investing activities			
Additions to property, plant and equipment	7	(86,216)	(92,367)
Changes in non-cash working capital balances	19	(4,891)	5,179
Net cash used in investing activities		(91,107)	(87,188)
Financing activity			
Dividends paid	10	(98,600)	(85,700)
Net cash used in financing activity		(98,600)	(85,700)
Net increase in cash		8,151	4,211
Cash, beginning of the year		31,901	27,690
Cash, end of the year		40,052	31,901

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 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

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 11, 2026.

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.

NALCOR ENERGY - OIL AND GAS INC.

NOTES TO THE FINANCIAL STATEMENTS

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.

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.

NALCOR ENERGY - OIL AND GAS INC.

NOTES TO THE FINANCIAL STATEMENTS

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 Instruments

Classification 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. Oil and Gas does not currently hold any derivative instruments.

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.

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. Oil and Gas does not currently hold any derivative instruments.

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 and 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 and are susceptible to sensitivities.

(vi) Consolidation of Joint Arrangements

Management exercises judgment when applying the criteria outlined in IFRS 11 to determine whether joint arrangements constitute joint ventures or joint operations. Management has determined that its interest in White Rose, Hibernia South, and Hebron is considered a joint operation.

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/amendments that have been issued and are effective for accounting periods commencing on or after January 1, 2025, as specified.

- *Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosure - Amendments to the Classification and Measurement of Financial Instruments*¹
- *IFRS 18 – Presentation and Disclosures in Financial Statements*²

¹ Effective for annual periods beginning on or after January 1, 2026, with earlier application permitted.

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

4.1 Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosure - Amendments to the Classification and Measurement of Financial Instruments

The IASB issued amendments to IFRS 9 and IFRS 7 to provide clarification and enhancement on classification and measurement of financial instruments. The amendments permit an entity to deem a financial liability or part of a financial liability that is settled using an electronic payment system to be discharged and derecognized before the settlement date if specified criteria are met. The amendments also provide guidance on how an entity should assess whether contractual cash flows of a financial asset are consistent with a basic lending arrangement, enhance the description of the term 'non-recourse', and clarify the characteristics of contractually linked instruments that distinguish them from other transactions. Furthermore, the amendments add new disclosure requirements for investments in equity instruments designated at FVTOCI and contractual terms that could change the timing or amount of contractual cash flows. The amendments are required to be applied retrospectively. The application of these amendments will 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. 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 impact on Oil and Gas' financial statements and expects adoption of the standard to result in significant changes to presentation and disclosure, especially as it relates to the presentation of the Consolidated Statement of Profit and Comprehensive Income.

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NOTES TO THE FINANCIAL STATEMENTS

5. TRADE AND OTHER RECEIVABLES

<i>As at December 31 (thousands of Canadian dollars)</i>		2025	2024
Trade receivables		37,672	36,848
HST receivable		371	604
Due from related parties	16	5,762	5,762
Loss allowance		(5,732)	(5,732)
		38,073	37,482

<i>As at December 31 (thousands of Canadian dollars)</i>		2025	2024
0-60 days		38,042	37,451
60+ days		31	31
		38,073	37,482

<i>As at December 31 (thousands of Canadian dollars)</i>		2025	2024
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>		2025	2024
Materials	(a)	13,415	13,708
Crude oil		5,044	4,501
		18,459	18,209

(a) Materials expensed during the year were \$3.3 million (2024 - \$1.9 million).

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7. PROPERTY, PLANT AND EQUIPMENT

<i>(thousands of Canadian dollars)</i>	Petroleum and Natural Gas Properties
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	86,216
Decommissioning liability revisions	7,680
Balance at December 31, 2025	1,836,414
Depreciation, depletion and impairment	
Balance at January 1, 2024	922,540
Depreciation and depletion	52,649
Impairment expense	19,626
Balance at December 31, 2024	994,815
Depreciation and depletion	71,418
Impairment expense	20,420
Balance at December 31, 2025	1,086,653
Carrying value	
Balance at January 1, 2024	728,096
Balance at December 31, 2024	747,703
Balance at December 31, 2025	749,761

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, 2025, the Company recognized an impairment expense of \$20.4 million (2024 – impairment expense of \$19.6 million). The impairment expense is related to the White Rose Extension due to the decrease in oil and gas price forecasts and revised cash flow estimates, updated for changes in market conditions and maturing of field lives and reserves.

8. TRADE AND OTHER PAYABLES

<i>As at December 31 (thousands of Canadian dollars)</i>	2025	2024
Trade payables and accruals	16,704	16,157
Due to related parties	6,379	10,487
HST payable	3,429	2,721
	26,512	29,365

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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, 2025 are \$169.4 million (2024 - \$162.7 million). Payments to settle the liabilities are expected to occur between 2038 and 2040. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at rates ranging from 4.9% to 5.0% (2024 – 4.7% to 5.1%). The reconciliation of the beginning and ending amounts of decommissioning liabilities is as follows:

<i>As at December 31 (thousands of Canadian dollars)</i>	2025	2024
Decommissioning liabilities, beginning of the year	77,105	73,667
Accretion	3,893	3,923
Revisions	(a) 7,680	(485)
Decommissioning liabilities, end of the year	88,678	77,105

(a) The revision to the decommissioning liability in the amount of \$7.7 million (2024 - (\$0.5 million)) is a non-cash transaction and has been excluded from the Statement of Cash Flows.

10. SHAREHOLDER'S EQUITY

10.1 Share Capital

<i>As at December 31 (thousands of Canadian dollars)</i>	2025	2024
Common shares without nominal or par value		
Authorized - unlimited		
Issued, fully paid and outstanding - 100	110,000	110,000

10.2 Dividends

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	2025	2024
Declared and paid during the year	98,600	85,700

11. OPERATING COSTS

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	2025	2024
Professional services	4,259	4,242
Salaries and benefits	113	149
Insurance	44	38
Other operating (recoveries) costs	(153)	93
Total operating costs	4,263	4,522

12. PRODUCTION, MARKETING AND TRANSPORTATION COSTS

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	2025	2024
Project operating costs	18,261	28,792
Transportation and transshipment	8,912	8,058
Processing and marketing	2,477	490
Insurance	1,335	1,529
Total production, marketing and transportation costs	30,985	38,869

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13. NET FINANCE EXPENSE

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	2025	2024
Finance income		
Other interest income	(2,436)	(2,382)
Finance expense		
Accretion	3,893	3,970
Other finance expense	156	109
	4,049	4,079
Total net finance expense	1,613	1,697

14. OTHER EXPENSE (INCOME)

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	2025	2024
Unrealized foreign exchange loss (gain)	3,597	(3,952)
HSE Redetermination adjustment	-	(23,123)
Realized foreign exchange (gain) loss	(962)	210
Other	-	(174)
Total other expense (income)	2,635	(27,039)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

15.1 Fair Value

The estimated fair values of financial instruments as at December 31, 2025 and 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.

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 years ended December 31, 2025 and 2024.

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As at December 31, 2025 and 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.

15.2 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 (2024 - \$40.0 million) unsecured demand operating facility with the Company's bank. As at December 31, 2025, Oil and Gas had no borrowings outstanding on the credit facility (2024 - \$nil), and \$17.1 million of the borrowing limit had been used (2024 - \$16.4 million) 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, 2025:

<i>(thousands of Canadian dollars)</i>	< 1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	26,512	-	-	-	26,512

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.

During 2025, total oil sales denominated in USD were \$220.7 million (USD) (2024 - \$175.9 million (USD)).

NALCOR ENERGY - OIL AND GAS INC.
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16. 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 financial statements, are summarized below:

<i>As at December 31 (thousands of Canadian dollars)</i>		2025	2024
Trade and other receivables:	Note 5		
Other related parties	(a)	5,762	5,762
Trade and other payables:	Note 8		
The Province	(b)	6,366	10,191
Parent		9	292
Other related parties		4	4
<i>For the year ended December 31 (thousands of Canadian dollars)</i>		2025	2024
Royalties:			
The Province	(b)	(74,763)	(25,191)
Operating costs:			
Other related parties		4,200	4,200

(a) Included in trade and other receivables as at December 31, 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.

(b) During 2025, Oil and Gas incurred \$77.8 million (2024 - \$25.3 million) in royalty expenses of which \$74.8 million (2024 - \$25.2 million) were paid to the Province and \$3.0 million paid to Federal Government (2024 - \$0.1 million). Royalties payable at the end of year were \$6.4 million (2024 - \$10.2 million).

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17. 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
2026	\$24.6
2027	\$6.5
2028	\$6.1
2029	\$5.2
2030	\$4.8
Thereafter	\$14.2

18. 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.

19. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the year ended December 31 (thousands of Canadian dollars)</i>	2025	2024
Trade and other receivables	(591)	(15,629)
Inventories	(1,517)	3,710
Prepayments	3,239	2,204
Trade and other payables	(2,853)	14,078
Changes in non-cash working capital balances	(1,722)	4,363

Related to:

Operating activities	3,169	(816)
Investing activities	(4,891)	5,179
	(1,722)	4,363