Condensed Consolidated Interim Financial Statements

As at and for the three and nine months ended
September 30, 2021

Condensed Consolidated Interim Balance Sheet
(Expressed in thousands of Canadian dollars, unaudited)

	Note	As at September 30, 2021	As at December 31, 2020
Assets			
Current			
Cash		**3,503**	54,476
Accounts receivable	15	**32,891**	2,807
Prepaid expenses and deposits		**4,403**	409
		40,797	57,692
Exploration & evaluation assets	5	**29,504**	76,296
Property, plant, and equipment	4	**517,851**	600
Investment in associate	6	**-**	36,731
Funds held in trust		**-**	1,674
Total assets		**588,152**	172,993
Liabilities			
Current			
Accounts payable and accrued liabilities		**33,813**	2,963
Contingent payment consideration	3	**4,929**	-
Risk management contracts	15	**48,167**	-
Lease liabilities		**1,371**	328
Asset retirement obligations	10	**5,000**	-
		93,280	3,291
Long term liability		**-**	1,674
Contingent payment consideration	3	**6,749**	-
Lease liabilities		**-**	177
Risk management contracts	15	**15,827**	-
Asset retirement obligations	10	**82,838**	1,597
Loans and borrowings	8	**32,620**	-
Total liabilities		**231,314**	6,739
Equity			
Shareholders' capital	12	**434,730**	187,169
Contributed surplus		**18,213**	8,057
Deficit		**(96,105)**	(28,972)
Total shareholders' equity		**356,838**	166,254
Non-controlling interest	3	**-**	-
Total equity		**356,838**	166,254
Total liabilities and equity		**588,152**	172,993
Commitments	11		
Subsequent events	19		

See the accompanying notes to the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Net Loss and Comprehensive Loss
(Expressed in thousands of Canadian dollars except per share amounts, unaudited)

		For the three months ended September 30,		For the nine months ended September 30,	
	Note	**2021**	2020	**2021**	2020
Revenue					
Revenue	7	**66,898**	2,388	**112,401**	7,572
Marketing revenue	7	**38,349**	-	**56,120**	-
Royalty expense		**(8,987)**	(254)	**(11,759)**	(697)
Revenue, net of royalties		**96,260**	2,134	**156,762**	6,875
Other income					
Share in earnings / excess fair value of associate	6	**-**	-	**21,251**	-
Gain (loss) on risk management contracts	15	**(52,091)**	-	**(85,263)**	-
Other income		**133**	44	**321**	266
Management fees		**-**	-	**957**	-
Total revenue and other income		**44,302**	2,178	**94,028**	7,141
Expenses					
Operating		**9,271**	711	**17,811**	2,296
Transportation		**5,520**	-	**9,854**	-
Marketing		**33,205**	-	**52,143**	-
Exploration and evaluation	5	**1,978**	2,975	**55,088**	13,464
General and administrative		**2,825**	1,339	**7,604**	3,938
Restructuring costs	16	**1,617**	-	**2,449**	-
Depreciation		**12,210**	127	**18,066**	362
Finance costs		**1,384**	22	**2,430**	65
Share-based compensation	14	**2,486**	549	**10,156**	1,617
Acquisition costs	3	**1,048**	-	**6,506**	-
Settlement agreement costs	3	**-**	-	**10,000**	-
Contingent payment consideration	3	**2,438**	-	**5,164**	-
Gain on acquisition	3	**-**	-	**(32,843)**	-
Total expenses		**73,982**	5,723	**164,428**	21,743
Net loss before income taxes		**(29,680)**	(3,545)	**(70,400)**	(14,601)
Income tax recovery					
Current		**-**	-	**-**	-
Deferred	3	**-**	-	**(9,811)**	-
Total income tax recovery		**-**	-	**(9,811)**	-
Net loss and comprehensive loss		**(29,680)**	(3,545)	**(60,589)**	(14,601)
Net income (loss) and comprehensive income (loss) attributable to:					
Common shareholders		**(47,840)**	-	**(79,785)**	-
Non-controlling interest		**18,160**	-	**19,196**	-
Net loss and comprehensive loss		**(29,680)**	**-**	**(60,589)**	**-**
Net loss per share					
Basic and diluted		**(0.86)**	(0.27)	**(2.19)**	(1.13)

See the accompanying notes to the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Changes in Equity

(Expressed in thousands of Canadian dollars, unaudited)

	Note	For the three months ended September 30,		For the nine months ended September 30,	
		2021	2020	**2021**	2020
Shareholders' equity					
Shareholders' capital					
Balance, beginning of period		**332,998**	128,193	**187,169**	128,048
Issuance of share capital	12	**101,732**	16,908	**247,561**	17,053
Balance, end of period		**434,730**	145,101	**434,730**	145,101
Contributed surplus					
Balance, beginning of period		**15,727**	7,005	**8,057**	5,936
Share-based compensation	14	**2,486**	549	**10,156**	1,617
Balance, end of period		**18,213**	7,554	**18,213**	7,554
Deficit					
Balance, beginning of period		**(60,917)**	(35,159)	**(28,972)**	(24,103)
Net loss and comprehensive loss		**(47,840)**	(3,545)	**(79,785)**	(14,601)
Elimination of non-controlling interest	3	**12,652**	-	**12,652**	-
Balance, end of period		**(96,105)**	(38,704)	**(96,105)**	(38,704)
Total shareholders' equity		**356,838**	113,951	**356,838**	113,951
Non-controlling interest					
Balance, beginning of period		**96,224**	-	**-**	-
Business combination	3	**-**	-	**95,188**	-
Net income		**18,160**	-	**19,196**	-
Acquisition of non-controlling interest	3	**(101,732)**	-	**(101,732)**	-
Elimination non-controlling interest	3	**(12,652)**	-	**(12,652)**	-
Balance, end of period		**-**	-	**-**	-
Total equity		**356,838**	113,951	**356,838**	113,951

See the accompanying notes to the condensed consolidated interim financial statements.

Condensed Consolidated Statement of Cash Flows
(Expressed in thousands of Canadian dollars, unaudited)

	Note	For the three months ended September 30, 2021	2020	For the nine months ended September 30, 2021	2020
Cash flows related to the following activities:					
Operating					
Net loss		**(29,680)**	(3,545)	**(60,589)**	(14,601)
Adjustments for non-cash items:					
Share-based compensation	14	**2,486**	549	**10,156**	1,617
Depreciation	4,5	**12,210**	127	**18,066**	362
Exploration and evaluation		**1,960**	2,336	**51,960**	11,451
Share in net earnings of associate		**-**	-	**(21,251)**	-
Shares issued for services		**-**	(29)	**287**	117
Unrealized loss on risk management contracts		**35,719**	-	**63,779**	-
Finance costs		**1,384**	21	**2,430**	65
Finance costs paid		**(961)**		**(1,726)**	
Deferred tax recovery		**-**	-	**(9,811)**	-
Contingent payment consideration		**2,438**	-	**5,164**	-
Gain on acquisition		**-**	-	**(32,843)**	-
Net change in non-cash working capital	17	**4,087**	940	**(15,322)**	105
Cash flows used in operating activities		**29,643**	399	**10,300**	(884)
Investing					
Acquisition through business combination	3	**-**	-	**(282,414)**	-
Cash acquired from business combination	3	**-**	-	**95,759**	-
Exploration and evaluation		**(1,420)**	(3,576)	**(3,891)**	(5,328)
Funds held in trust		**-**	(2,238)	**-**	(2,238)
Property, plant and equipment	4	**(13,333)**	(68)	**(15,050)**	(129)
Investment in associate	6	**-**	-	**(40,113)**	-
Deferred transaction costs		**-**	(251)	**-**	(460)
Net change in non-cash working capital	17	**7,074**	284	**7,390**	38
Cash flows used in investing activities		**(7,679)**	(5,848)	**(238,319)**	(8,117)
Financing					
Issuance of common shares	12	**-**	16,936	**146,846**	16,936
Share issue costs		**-**	-	**(1,304)**	-
Funds held in trust		**-**	2,238	**-**	2,238
Draw on credit facility		**-**	-	**101,300**	-
Repayment of credit facility		**(27,955)**	-	**(67,122)**	-
Deferred financing		**(69)**	-	**(2,226)**	-
Repayment of finance leases		**(267)**	(90)	**(448)**	(322)
Cash flows from (used in) financing activities	17	**(28,291)**	19,084	**177,046**	18,852
Net change in cash		**(6,327)**	13,634	**(50,973)**	9,851
Cash, beginning of period		**9,830**	24,185	**54,476**	27,968
Cash, end of period		**3,503**	37,819	**3,503**	37,819

See the accompanying notes to the condensed consolidated interim financial statements.

1. Nature and description of the corporation

Kiwetinohk Energy Corp. ("Kiwetinohk" or the "Corporation") is a limited corporation formed on September 22, 2021, pursuant to the Canada Business Corporations Act. The Corporation was formed as part of the amalgamation of Kiwetinohk Resources Corp. ("KRC") and Distinction Energy Corporation ("Distinction", previously known as Delphi Energy Corp.) as described in Note 3.

The Corporation is engaged in the business of developing an integrated energy transition company focused on production of low carbon energy through the alignment of hydrocarbons and natural gas-fired (with carbon capture) and renewable power generation solutions.

The registered office of the Corporation is located at Suite 1900, 250 – 2nd Street SW, Calgary, Alberta, T2P 0C1.

2. Basis of Presentation

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting,* using accounting policies consistent with International Financial Reporting Standards ("IFRS"). These financial statements are condensed as they do not include the information required by IFRS for annual financial statements and therefore should be read in conjunction with KRC's audited financial statements for the year ended December 31, 2020. These condensed consolidated interim financial statements include the accounts of Distinction of which KRC owned 51.5% prior to the amalgamation into Kiwetinohk on September 22, 2021.

The condensed consolidated interim financial statements have been prepared using historical costs, except for risk management contracts and contingent payment consideration which are measured at fair value. The financial statements are presented in Canadian dollars, the Corporation's functional currency.

The financial statements were authorized for issue by the Corporation's Board of Directors on November 23, 2021.

Changes to significant accounting policies

Except as described below, the same accounting policies were applied in the condensed consolidated interim financial statements as were used for the KRC's audited financial statements for the year ended December 31, 2020.

Operating Segments

The Corporation's business activities include an Upstream Segment involved in the exploration and development of petroleum and natural gas in Western Canada and a Green Energy Transition Segment involved in evaluating and developing low carbon solutions for the energy industry and securing access to downstream markets including power and hydrogen. Operating segments are reported separately if quantitative thresholds in accordance with IFRS 8 are met. At the current time the upstream segment is the only reportable segment.

Economic conditions and impact of COVID-19

In March 2020, the World Health Organization characterized the outbreak of a strain of the novel coronavirus (“COVID-19”) as a pandemic. Ongoing uncertainty in commodity prices resulting from decreases in demand due to COVID-19 and the oversupply of crude oil are expected to continue to merit caution.

The duration of COVID-19 remains unknown and it is not possible to reliably estimate the impact that the length and severity of these developments will have on the financial results and condition of the Corporation in future periods. These economic conditions have created greater uncertainties around increased counterparty credit risk and valuation of long-lived property, plant, and equipment, and exploration and evaluation assets. The Corporation has incorporated the anticipated impact of COVID-19 in its estimates and judgments in preparation of these financial statements.

3. Business Acquisitions

Simonette

On February 17, 2021, KRC and Distinction entered into various agreements to participate as to 50 percent each in a $320 million asset acquisition of oil and natural gas properties in the Simonette region (the “Simonette Acquisition”). The acquisition closed on April 28, 2021. The purchase price will include up to $15 million of contingent payments required if average crude oil prices exceed the reference price for WTI of USD $56.00 per barrel in 2021 and USD $62.00 per barrel in 2022 of which $7.5 million of the contingent payments may be settled in common shares of the Corporation at the sole option of the Corporation. The Corporation has included an estimated $6.5 million of contingent payment consideration as part of the purchase price of the Simonette Acquisition and subsequently revalued the contingent payment consideration to $11.7 million as at September 30, 2021, with a $2.4 million and $5.2 million increase in the liability recognized in the consolidated statement of net loss and comprehensive loss for the three and nine months ended September 30, 2021, respectively. The Simonette Acquisition is aligned with the Corporation’s strategy of building an energy transition company focused initially on building a risk-diversified, liquids-rich focused upstream portfolio of Western Canadian oil and gas resource plays.

Total transaction costs were $ nil and $4.8 million which are recognized in acquisition costs in the statement of net loss and comprehensive loss during the three and nine months ended September 30, 2021, respectively. The Simonette Acquisition resulted in a bargain purchase gain of $32.8 million that is mainly attributed to an increase in forecast pricing at closing date. Both KRC and Distinction had issued a prepayment of $7.5 million each on February 17, 2021 towards the Simonette Acquisition.

(All figures expressed in thousands of Canadian dollars, unless otherwise stated)

The Simonette Acquisition has been accounted for as a business combination under IFRS, using the acquisition method based on net asset and liability fair values as follows using discount rates based on what a market participant would have paid. The amounts below are estimates which were made by management at the time of the preparation of these condensed consolidated interim financial statements based on information then available. Amendments may be made to these amounts as values subject to estimate are finalized for a period of up to one year. The preliminary purchase price allocation is:

	April 28, 2021
Purchase price consideration as per purchase and sale agreement	320,000
Contingent payment consideration	6,514
Total consideration	326,514
Preliminary closing adjustments	(30,086)
	296,428
Fair value of net identifiable assets acquired:	
Working capital	1,726
Property, plant, and equipment	345,066
Lease liabilities	(605)
Asset retirement obligations	(7,105)
Deferred tax liabilities	(9,811)
	329,271
Bargain purchase gain	(32,843)
	296,428

From April 28, 2021 to September 30, 2021, the Simonette assets contributed $64.7 million of revenue and $43.3 million of net income before tax to the Corporation. Had the business combination occurred on January 1, 2021, revenue contributed by the Simonette assets would have been $125.3 million and net income before tax would have been $84.4 million for the period January 1, 2021 to September 30, 2021. The pro-forma information disclosed is not necessarily indicative of the actual results that would have been achieved had the Simonette Acquisition closed on January 1, 2021.

Settlement agreement

Concurrently, with the closing of the Simonette Acquisition, KRC acquired and settled the obligations related to a carried interest in relation to the interests acquired in the Simonette Acquisition from 1266580 B.C. Ltd., an affiliate of Luminus Energy. The total net cost of the carried interest was $10.0 million, of which $nil and $10 million, respectively has been recognized as settlement expense during the three and nine months ended September 30, 2021.

(All figures expressed in thousands of Canadian dollars, unless otherwise stated)

Distinction Energy Corp.

On October 16, 2020, the KRC made an initial investment in Distinction of $22.9 million to acquire a 25 percent ownership interest. This investment included share purchase warrants that were subsequently exercised on January 15, 2021, for $40.0 million (including working capital adjustments). As a result of the warrant exercise, KRC owned 4,870,980 (51.5 percent) of Distinction's issued and outstanding common shares that were previously accounted for under the equity method. KRC accounted for its investment in Distinction using the equity method of accounting from October 16, 2020 to April 28, 2021, the period for which KRC had significant influence but not control over Distinction.

Distinction closed a private placement of 265,331 special warrants priced at a price of $15 per special warrant (the "Special Warrants") on February 24, 2021. All Special Warrants were deemed exercised on behalf of, and without any required action on the part of the holders on June 25, 2021. On June 14, 2021, by way of a private placement, KRC purchased 265,331 Class A common shares of Distinction at a price of $15 per Class A common share and maintained a 51.5 percent ownership following the deemed exercise of Special Warrants.

Following the announcement by KRC and Distinction on February 17, 2021 of their entering into of an agreement in respect of the Simonette Acquisition, both management teams agreed there would be strategic benefits of a combined entity, including size and scale, enhanced corporate strategy, other financial operating efficiencies, and upside potential in respect of KRC's integrated energy transition strategy. As of April 28, 2021, based on changes in the board of directors, KRC owned a controlling interest in Distinction.

Total transaction costs were $1.0 million, $0.3 million and $1.7 million of which are recognized in acquisition costs in the statement of net loss and comprehensive loss during the three and nine months ended September 30, 2021,

The Distinction business combination is recognized using the acquisition method at April 28, 2021. KRC fair valued its 51.5 percent equity interest immediately prior to consolidation. No consideration was transferred upon KRC gaining control of Distinction. The preliminary purchase price allocation is:

	April 28, 2021
Investment in associate	84,461
Share in acquisition date fair value gain and remeasurements	12,221
Investment in associate immediately prior to acquisition	**96,682**
Fair value of net identifiable assets acquired:	
Working capital (net of cash acquired)	96,269
Property, plant, and equipment	107,042
Risk management contracts	(1,245)
Lease liabilities	(709)
Asset retirement obligations	(9,487)
	191,870
Non-controlling interest	(95,188)
	96,682

Total cash acquired from the acquisition of Distinction was $95.8 million. From the date of acquisition to September 30, 2021, Distinction contributed $36.5 million of revenue and $20.1 million of net income before tax to the Corporation. Had the business combination occurred on

(All figures expressed in thousands of Canadian dollars, unless otherwise stated)

January 1, 2021, revenue contributed by Distinction would have been $62.9 million and net income before tax would have been $34.3 million for the period January 1, 2021 to September 30, 2021.

KRC and Distinction announced an agreement to combine on June 28, 2021 under a plan of arrangement pursuant to applicable corporate law (the 'Arrangement'). Through the Arrangement, KRC acquired all of the common shares of Distinction that it did not already own (approximately 50%) by way of an exchange of 20 KRC shares for each Distinction share. On September 22, 2021, the amalgamation closed (Note 1). Under the Arrangement, Kiwetinohk succeeds the reporting issuer status of Distinction. The Corporation issued 10.2 million shares (101.7 million shares pre-consolidation Note 12) to acquire the remaining Distinction shares.

Non-Controlling Interest

	For the three months ended September 30,	For the nine months ended September 30,
Balance, beginning of period	**96,224**	**-**
Business combination	**-**	**95,188**
Net income	**18,160**	**19,196**
Acquisition of non-controlling interest	**(101,732)**	**(101,732)**
Elimination of non-controlling interest	**(12,652)**	**(12,652)**
Balance, end of period	**-**	**-**

4. Property, plant, and equipment ("PPE") assets

Cost:	**September 30, 2021**	December 31, 2020
Balance, beginning of period	**1,619**	1,484
Acquisitions	**451,504**	-
Additions – Oil and gas properties	**13,510**	-
Additions – Right of use asset	**605**	1
Additions - Other	**1,540**	134
Change in asset retirement obligation	**68,157**	-
Balance, end of period	**536,935**	1,619
Accumulated amortization:		
Balance, beginning of period	**(1,018)**	(544)
Depletion	**(18,066)**	(475)
Balance, end of period	**(19,084)**	(1,019)
Net balance, end of period	**517,851**	600

Future development costs of $1.3 billion were included in the depletion calculation. For the nine months ended September 30, 2021, the Corporation capitalized $1.3 million (December 31, 2020 - $nil) of general and administrative expenses directly to PPE.

(All figures expressed in thousands of Canadian dollars, unless otherwise stated)

5. Exploration and evaluation ("E&E") assets

Cost:	September 30, 2021	December 31, 2020
Balance, beginning of period	**108,464**	101,425
Land purchases	**281**	5,484
Farm-in well exploration expenditures	**3,610**	676
Change in asset retirement obligation	**1,278**	879
Balance, end of period	**113,633**	108,464
Accumulated amortization:		
Balance, beginning of period	**(32,168)**	(18,493)
Expense related to amortization of well costs	**(4,546)**	(13,674)
Expense related to impairment of land and well costs	**(47,415)**	-
Balance, end of period	**(84,129)**	(32,168)
Net balance, end of period	**29,504**	76,296

During the third quarter of 2021, the Corporation recognized a $1.4 million impairment for well costs incurred during the second quarter of 2021 on a new drill in the Clearwater play which may not be fully recoverable based on well performance to date.

With the Simonette Acquisition (see Note 3) the Corporation identified an impairment indicator on existing E&E assets based on a change in budgeted and planned expenditures in the West Central Alberta cash generating unit ("CGU") during the first quarter of 2021. As the Corporation plans to re-prioritize its development and drilling plans to higher return undeveloped land locations associated with the Simonette Acquisition, there was $24.4 million of impairment recorded relating to near-term land expiries that may not be developed at the current time. In addition the Corporation performed an impairment test on its West Central Alberta CGU based on the recoverable amount estimated, using a fair value less cost-to-sell approach derived from expected future cash flows from proved developed producing reserves, using a 15 percent pre-tax discount rate, which resulted in the recognition of a $21.6 million impairment during the first quarter of 2021.

6. Investment in associate

Cost:	September 30, 2021	December 31, 2020
Balance, beginning of period	**36,731**	-
Investment including transaction costs	**40,113**	23,853
Share in earnings of associates and depletion	**517**	(2,050)
Excess value above initial investment	**19,321**	14,928
Derecognition of investment in associate due to business combination (Note 3)	**(96,682)**	-
Balance, end of period	**-**	36,731

On April 28, 2021, KRC obtained control in its investment in associate (Note 3) and derecognized the investment under the equity method.

(All figures expressed in thousands of Canadian dollars, unless otherwise stated)

7. Revenue

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	**2021**	2020
Oil	**2,536**	1,909	**7,126**	5,932
Natural gas	**24,426**	341	**38,345**	885
Condensate	**31,636**	72	**53,759**	642
NGLs	**8,300**	66	**13,171**	113
	66,898	2,388	**112,401**	7,572
Marketing revenue	**38,349**	-	**56,120**	-
Balance, end of period	**105,247**	2,388	**168,521**	7,572

The Corporation purchases natural gas from third parties to fulfill take-or-pay transportation commitments. The ultimate sale of natural gas is reflected as marketing revenue. Marketing expenses include the original commodity purchase, related transportation expense and any related marketing fees.

8. Loans and borrowings

On September 22, 2021 the Corporation amended and restated its credit agreement. The Corporation entered into a consolidated $225.0 million Senior Secured Extendible Revolving Facility ("Credit Facility") with a syndicate of banks. The Credit Facility is composed of an operating facility of $45.0 million and a syndicated facility of $180.0 million. The Credit Facility is a 364-day committed facility available on a revolving basis until May 31, 2022, at which time it may be extended at the lenders' option. If the revolving period is not extended, the undrawn portion of the Credit Facility will be cancelled and the amount outstanding would be required to be repaid at the end of the non-revolving term, being May 31, 2023. The borrowing base is determined based on the lenders' evaluation of the Corporation's petroleum and natural gas reserves at the time and commodity prices.

Interest payable on amounts drawn under the Credit Facility is at the prevailing bankers' acceptance plus stamping fees, lenders' prime rate or U.S. base rate plus the applicable margins, depending on the form of borrowing by the Corporation. The applicable margins and stamping fees are based on a sliding scale pricing grid tied to the Corporation's debt to earnings before interest, taxes, depreciation and amortization ratio ("bank EBITDA"): from a minimum of the bank's prime rate or U.S. base rate plus an applicable margin ranging from 1.75 percent to 5.25 percent or from a minimum of bankers' acceptances rate plus a stamping fee ranging from 2.75 percent to 6.25 percent. The undrawn portion of the Credit Facility is subject to standby fees ranging from 0.6875% to 1.5625% based on the Corporation's debt to EBITDA ratio.

The New Credit Facility is secured by a $1.0 billion demand floating charge debenture and a general security agreement over all assets of the Corporation. At September 30, 2021, the Corporation has letters of credit outstanding of $20.8 million which reduce the available operating facility capacity. The Corporation's available borrowing capacity at September 30, 2021 is $170.0 million. The Corporation's total loans and borrowings as at September 30, 2021 were $32.6 million which includes net deferred financing charges of $1.6 million.

The Corporation is not subject to any financial covenants under the Credit Facility.

(All figures expressed in thousands of Canadian dollars, unless otherwise stated)

9. Weighted average shares

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	**2021**	2020
Basic weighted average shares	**34,322**	13,306	**27,667**	12,961
Effect of dilutive instruments	**-**	-	**-**	-
Diluted weighted average shares	**34,322**	13,306	**27,667**	12,961

All options, performance warrants, and capital warrants were anti-dilutive for the nine months ended September 30, 2021 for the three and nine months ended periods ended September 30, 2020 and 2021.

The weighted average common shares used for the comparative periods presented have been adjusted to reflect the 10:1 share consolidation as described in Note 12.

10. Asset retirement obligations

	September 30, 2021	December 31, 2020
Balance, beginning of period	**1,597**	701
Liabilities incurred	**942**	868
Acquisitions	**16,593**	-
Accretion expense	**162**	15
Changes in estimate	**20,973**	-
Revaluation of liabilities acquired(1)	**47,571**	13
Balance, end of period	**87,838**	**1,597**
Current asset retirement obligations	**5,000**	-
Long term asset retirement obligations	**82,838**	1,597
	87,838	1,597

1 – Revaluation of asset retirement obligations acquired through business combination (Note 3) using a risk-free interest rate.

The Corporation's asset retirement obligations result from its ownership in oil and natural gas assets, including well sites, facilities and gathering systems. The total estimated undiscounted cash flows required to settle the obligations, inflated at 2.0 percent (December 31, 2020 – 1.5 percent), is approximately $87.8 million (December 31, 2020 - $1.6 million). These cash flows have been discounted using a risk-free interest rate of 2.0 percent (December 31, 2020 – 1.3 percent) based on Government of Canada long-term benchmark bonds. The Corporation expects these obligations to be settled over one to twenty-nine-years.

11. Commitments

$ million	2021	2022	2023	2024	2025	Thereafter
Gathering, processing and transport	15.1	61.6	62.5	64.6	56.4	56.9
Natural gas purchases	29.2	97.2	-	-	-	-
Office, equipment and software	0.1	0.2	0.1	-	-	-
Accounts payable	33.8	-	-	-	-	-
Credit facility	-	2.0	38.0	-	-	-
Other	0.5	0.4	0.4	0.4	0.4	1.4
Total	78.7	161.4	101.0	65.0	56.8	58.3

As part of the Simonette Acquisition and Distinction business combination, the Corporation assumed natural gas transportation commitments of approximately 120.0 mmcf per day to deliver gas to Chicago on the Alliance pipeline through October 2025. At September 30, 2021 the Corporation has 20 thousand GJ per day of gas supply from a natural gas supplier into 2022.

The Corporation has entered into various gas purchase agreements to fill the underutilized portion of the Alliance pipeline through December 2022.

12. Shareholders' capital

The Corporation is authorized to issue an unlimited number of voting common shares.

(000s) except share amounts

Common shares:	Number	$
Balance, December 31, 2019	12,811,636	128,048
Equity line of credit cash calls	5,900,386	59,004
Shares issued for services	11,696	117
Balance, December 31, 2020	18,723,718	187,169
Equity line of credit cash calls (net of issue costs)	11,350,578	113,506
Private placement (net of issue costs)	3,333,898	32,036
Shares issued for services	28,746	287
Shares issued on Distinction Acquisition (Note 3)	10,173,200	101,732
Subtotal	43,610,140	434,730

During 2021 the Corporation has fully drawn on its equity line of credit and raised $32.0 million of net proceeds from a private placement.

On September 22, 2021 the Corporation acquired the remaining common shares of Distinction that it did not already own by issuing 10.2 million (post consolidation) common shares. As part of the Arrangement the Common Shares of Kiwetinohk were consolidated on a ten to one basis and this adjustment has been retroactively reflected in prior year comparatives.

(All figures expressed in thousands of Canadian dollars, unless otherwise stated)

13. Capital management

The Corporation's objective when managing its capital is to maintain a conservative structure that will allow it to provide financial flexibility to execute on strategic opportunities and new business opportunities.

The Corporation manages its capital structure and adjusts it in response to changes in economic conditions. The Corporation's capital is comprised of shareholders equity, loans and borrowings, and working capital.

The Corporation is not subject to any externally imposed financial covenants or capital requirements.

14. Share-based compensation plans

As part of the 10:1 share consolidation, as described in Note 12, the number of shares on exercise of options, performance warrants and capital warrants has been divided by 10, and the corresponding exercise price was multiplied by 10. Prior year comparatives have been retroactively adjusted to reflect the 10:1 share consolidation.

Stock options:

	Number of options	Weighted average exercise price ($)
Outstanding, December 31, 2019	1,410,958	10.0
Granted	106,778	10.0
Forfeited	(229,446)	10.0
Outstanding, December 31, 2020	1,288,290	10.0
Granted	1,323,709	10.0
Forfeited	(3,827)	10.0
Subtotal	2,608,172	10.0
Distinction options assumed (Note 3)	608,872	7.50
Subtotal	3,217,044	-

Performance warrants:

	Number of performance warrants	Weighted average exercise price ($)
Outstanding, December 31, 2019	2,821,917	20.0
Granted	213,556	20.0
Forfeited	(456,979)	20.0
Outstanding, December 31, 2020	2,578,493	20.0
Granted	5,039,713	20.0
Forfeited	(9,567)	20.0
Subtotal	7,608,640	20.0

(All figures expressed in thousands of Canadian dollars, unless otherwise stated)

Capital warrants:

	Number of capital warrants
Outstanding, December 31, 2020	2,007,330
Terminated on completion of Distinction Acquisition (Note 3)	(2,007,330)
Outstanding, September 30, 2021	-

Share-based compensation

A summary of the inputs used to value stock options and warrants is as follows:

	2021	2020
Risk-free interest rate	2.0%	2.0%
Expected volatility	50%	50%
Expected dividend rate	0%	0%
Expected forfeiture rate	10%	15%

All share instruments are equity settled. The expected life of stock options and warrants are seven and five years, respectively. The inputs resulted in a fair value of $5.30 per stock option and $3.60 per performance warrant.

15. Financial instruments and risk management

The Corporation's financial instruments recognized on the condensed consolidated interim balance sheet includes cash, accounts receivable, funds held in trust, accounts payable and accrued liabilities, long term liability, contingent payment consideration, loans and borrowings, and risk management contracts.

Financial instruments carried at fair value include cash, contingent payment consideration, and risk management contracts. Cash is classified as a Level 1 measurement and contingent payment consideration and risk management contracts are classified as a Level 2 measurement in the fair value measurement hierarchy. The carrying value of accounts receivable, funds held in trust, accounts payable and accrued liabilities, long-term liability, and loans and borrowings approximate fair value due to their short terms to maturity and the use of floating rates for loans and borrowings.

The nature of these financial instruments exposes the Corporation to market risk, credit risk, and liquidity risk. During the three and nine months ended September 30, 2021, there have been no significant changes to these risks.

Credit risk

Credit risk is the risk of financial loss to the Corporation if a counterparty to a financial instrument fails to meet its contractual obligation. The Corporation is exposed to credit risk with respect to its cash, accounts receivable and risk management contracts.

The Corporation's cash balances and risk management contracts are held with large established financial institutions.

(All figures expressed in thousands of Canadian dollars, unless otherwise stated)

The Corporation's accounts receivable are current and are as follows:

	September 30, 2021	December 31, 2020
Commodity sales from marketing companies	**21,503**	772
Crown rebate	**-**	517
Government related filings	**5,746**	124
Joint venture	**4,216**	7
Other	**1,426**	1,387
	32,891	2,807

Market risk
Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Corporation's comprehensive loss to the extent the Corporation has outstanding financial instruments.

With respect to risk management contracts, which are derivative financial instruments, management has elected not to use hedge accounting and consequently records the fair value of its natural gas, basis differential contracts and crude oil financial contracts on the statement of financial position at each reporting period with the change in the fair value of the risk management contracts being classified as unrealized gains and losses in the consolidated statement of net loss and comprehensive loss.

	September 30, 2021	December 31, 2020
Natural gas contract liability	**36,155**	-
Crude oil contracts liability	**27,621**	-
Foreign exchange contracts liability	**218**	-
	63,994	-
Current risk management contracts	**48,167**	-
Long term risk management contracts	**15,827**	-
	63,994	

The Corporation has the following risk management contracts outstanding as of September 30, 2021:

Foreign exchange:

Time Period	Average	Units	Type	Price ($/unit)	Reference price
October 2021	$5.6MM	$USD / month	Put	$1.227	$CAD to $US

(All figures expressed in thousands of Canadian dollars, unless otherwise stated)

Oil:

	2021		2022		2023	
Crude Oil - WTI	**$CAD/unit**	bbl/day	**$CAD/unit**	bbl/day	**$CAD/unit**	bbl/day
Swap	73.91	3,370	69.95	750	82.60	900
Collar						
Bought put price	-	-	65.00	2,100	-	-
Sold call price	-	-	76.68	2,100	-	-

Natural gas:

	2021		2022		2023	
NYMEX	**$USD/unit**	mmbtu/d	**$USD/unit**	mmbtu/d	**$USD/unit**	mmbtu/d
Swap	2.92	25,500	2.86	18,900	3.53	9,375
NGI Chicago	**$USD/unit**	mmbtu/d	**$USD/unit**	mmbtu/d	**$USD/unit**	mmbtu/d
Basis Swap - Sale	(0.07)	18,650	(0.05)	16,475	0.01	9,375
AECO 5A	**$CAD/unit**	GJ/d	**$CAD/unit**	GJ/d	**$CAD/unit**	GJ/d
Swap	2.20	4,725	2.18	2,150	-	-
AECO 5A	**$USD/unit**	mmbtu/d	**$USD/unit**	mmbtu/d	**$USD/unit**	mmbtu/d
Basis Swap - Purchase	1.00	52,500	(0.70)	40,000	-	-
GDD Chicago	**$USD/unit**	mmbtu/d	**$USD/unit**	mmbtu/d	**$USD/unit**	mmbtu/d
Basis Swap - Sale	1.53	52,500	0.27	40,000	-	-

1 – Prices per unit and volumes per day are represented at the average amounts for the period.

The Corporation recognized an unrealized loss of $35.7 and $63.8 million for the three months and nine months ended September 30, 2021, and a realized loss of $16.4 million and $21.5 million, respectively.

(All figures expressed in thousands of Canadian dollars, unless otherwise stated)

16. Restructuring costs

Restructuring costs are comprised of legal fees, monitor fees, financial advisory fees, investor relations, consultant fees, settlement fees and termination payments for Distinction. During the three and nine months ended September 30, 2021, In the Corporation incurred $1.6 and $2.4 million, respectively in restructuring costs primarily related to settlement fees, directors and officers run off insurance, and termination benefits.

17. Supplemental cash flow information

Changes in non-cash working capital are as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	**2021**	2020
Accounts receivable	**(4,433)**	851	**(22,142)**	1,541
Prepaid expenses	**(520)**	85	**(4,307)**	111
Accounts payable and accrued liabilities	**16,114**	288	**18,517**	(1,509)
Net change in non-cash working capital	**11,161**	1,224	**(7,932)**	143
Allocated to:				
Operating activities	**4,087**	940	**(15,322)**	105
Investing activities	**7,074**	284	**7,390**	38
Financing activities	**-**	-	**-**	-
	11,161	1,224	**(7,932)**	143

18. Related party transactions

During the three and nine months ended September 30, 2021 the Corporation incurred the following transactions:

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	**2021**	2020
Legal services from a law firm where a director is a partner	**822**	355	1,700	374
Upstream evaluation fees where a director is the CEO	**12**	105	22	310
Upstream oilfield services where a VP is the President[1]	**82**	18	224	108
Total	**916**	478	1,946	792

1 – Subsequent to September 30, 2021 the VP has resigned from the upstream oilfield service company.

(All figures expressed in thousands of Canadian dollars, unless otherwise stated)

All related party transactions are incurred in the normal course of operations and recorded at the exchange amount which approximates the fair value of the services provided. As at September 30, 2021, there is $0.4 million (September 30, 2020 - $0.3 million) outstanding in amounts payable to related parties.

Upon closing of the Arrangement with Distinction, the Corporation has a net receivable balance of $0.6 million outstanding from previous Directors and employees of Distinction for withholding taxes incurred upon the surrender and exchange of all remaining Distinction restricted share units at the time of closing.

19. Subsequent events

Loans and borrowings

The Corporation entered into additional letters of credit of approximately $31 million as a result of incremental natural gas purchase commitments. Additionally, the Corporation increased its operating facility to $65 million.

Commitments

On November 1, 2021, the Corporation acquired in excess of 70 thousand GJ per day of gas supply from several natural gas producers in various tranches through 2022, allowing the Corporation to fully utilize its Alliance pipeline capacity and Aux Sable rich gas premium contract.

Risk management contracts

Subsequent to September 30, 2021 the Corporation entered into the following risk management contracts:

Natural gas:

	2021		2022		2023	
AECO 5A	**$USD/unit**	mmbtu/d	**$USD/unit**	mmbtu/d	**$USD/unit**	mmbtu/d
Basis Swap - Purchase	(0.27)	40,000	(1.33)	23,000	-	-
GDD Chicago	**$USD/unit**	mmbtu/d	**$USD/unit**	mmbtu/d	**$USD/unit**	mmbtu/d
Basis Swap - Sale	(0.07)	40,000	0.05	23,000	-	-

1 – Prices per unit and volumes per day are represented at the average amounts for the period.

Public Listing

Subsequent to September 30, 2021 the Corporation has applied to have its common shares listed on the Toronto Stock Exchange (the “Exchange”). Listing is subject to the approval of the Exchange in accordance with its original listing requirements. The Exchange has not conditionally approved the Corporation’s listing application and there is no assurance that the listing application will be approved.