Interim Condensed Consolidated Financial Statements of

Kiwetinohk Resources Corp.

As at and for the three and six months ended June 30, 2021

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

		As at	
	Note	**June 30, 2021**	December 31, 2020
Assets			
Current			
Cash		**9,830**	54,476
Accounts receivable	**15**	**28,263**	2,807
Prepaid expenses and deposits		**3,846**	409
		41,939	57,692
Exploration & evaluation assets	**5**	**29,831**	76,296
Property, plant, and equipment	**4**	**500,631**	600
Investment in associate	**6**	**-**	36,731
Funds held in trust		**-**	1,674
Total assets		**572,401**	172,993
Liabilities			
Current			
Accounts payable and accrued liabilities		**17,728**	2,963
Contingent payment consideration	**3**	**4,382**	-
Risk management contracts	**15**	**21,963**	-
Lease liabilities		**997**	328
Asset retirement obligations	**10**	**693**	-
		45,763	3,291
Long term liability		**-**	1,674
Contingent payment consideration	**3**	**4,858**	-
Lease liabilities		**641**	177
Risk management contracts	**15**	**6,312**	-
Asset retirement obligations	**10**	**70,783**	1,597
Loans and borrowings	**8**	**60,244**	-
Total liabilities		**188,601**	6,739
Equity			
Shareholders' capital	**12**	**332,998**	187,169
Contributed surplus		**15,727**	8,057
Deficit		**(59,376)**	(28,972)
Total shareholders' equity		**289,349**	166,254
Non-controlling interest		**94,451**	-
Total equity		**383,800**	166,254
Total liabilities and equity		**572,401**	172,993
Commitments	**11**		
Subsequent events	**19**		

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

Condensed Consolidated Statement of Net Income (Loss) and Comprehensive Income (Loss)

(Expressed in thousands of Canadian dollars except per share amounts, unaudited)

	Note	For the three months ended June 30, 2021	For the three months ended June 30, 2020	For the six months ended June 30, 2021	For the six months ended June 30, 2020
Revenue					
Revenue	**7**	**42,262**	1,306	**45,503**	5,184
Marketing revenue	**7**	**17,771**	-	**17,771**	-
Royalties (expense)/recovery		**(2,559)**	154	**(2,772)**	(442)
Revenue, net of royalties		**57,474**	1,460	**60,502**	4,742
Other income					
Share in earnings / excess fair value of associate	**6**	**15,182**	-	**24,211**	-
Gain (loss) on risk management contracts	**15**	**(31,424)**	-	**(33,172)**	-
Other income		**131**	69	**188**	222
Management fees		**314**	-	**957**	-
Total revenue and other income		**41,677**	1,529	**52,686**	4,964
Expenses					
Operating		**7,954**	425	**8,541**	1,585
Transportation		**4,287**	-	**4,334**	-
Marketing		**18,938**	-	**18,938**	-
Exploration and evaluation	**5**	**3,184**	2,488	**53,109**	10,489
General and administrative		**2,783**	1,197	**4,789**	2,599
Restructuring costs	**16**	**832**	-	**832**	-
Depreciation		**5,743**	118	**5,853**	236
Finance costs		**1,020**	21	**1,039**	43
Share-based compensation	**14**	**3,740**	542	**7,670**	1,069
Acquisition costs	**3**	**4,806**	-	**5,458**	-
Settlement agreement costs	**3**	**10,000**	-	**10,000**	-
Contingent payment consideration	**3**	**2,727**	-	**2,727**	-
Gain on acquisition	**3**	**(31,751)**	-	**(31,751)**	-
Total expenses		**34,263**	4,791	**91,539**	16,021
Net income (loss) before income taxes		**7,414**	(3,262)	**(38,853)**	(11,057)
Income tax recovery					
Current		**-**	-	**-**	-
Deferred	**3**	**(9,485)**	-	**(9,485)**	-
Total income tax recovery		**(9,485)**	-	**(9,485)**	-
Net income (loss) and comprehensive income (loss)		**16,899**	(3,262)	**(29,368)**	(11,057)
Net loss and comprehensive loss attributable to:					
Common shareholders		**15,863**	(3,262)	**(30,404)**	(11,057)
Non-controlling interest		**1,036**	-	**1,036**	-
Net income (loss) and comprehensive income (loss)		**16,899**	**(3,262)**	**(29,368)**	**(11,057)**
Net income (loss) per share					
Basic and diluted	**9**	**0.06**	(0.03)	**(0.12)**	(0.09)

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

Condensed Consolidated Statement of Changes in Equity
(Expressed in thousands of Canadian dollars, unaudited)

	Note	For the three months ended June 30, 2021	2020	For the six months ended June 30, 2021	2020
Shareholders' equity					
Shareholders' capital					
Balance, beginning of period		**195,520**	128,113	**187,169**	128,048
Issuance of share capital	**12**	**137,478**	-	**145,829**	-
Shares to be issued		**-**	80	**-**	145
Balance, end of period		**332,998**	128,193	**332,998**	128,193
Contributed surplus					
Balance, beginning of period		**11,987**	6,463	**8,057**	5,936
Share-based compensation	**14**	**3,740**	542	**7,670**	1,069
Balance, end of period		**15,727**	7,005	**15,727**	7,005
Deficit					
Balance, beginning of period		**(75,239)**	(31,898)	**(28,972)**	(24,103)
Net income (loss) and comprehensive income (loss)		**15,863**	(3,261)	**(30,404)**	(11,056)
Balance, end of period		**(59,376)**	(35,159)	**(59,376)**	(35,159)
Total shareholders' equity		**289,349**	100,039	**289,349**	100,039
Non-controlling interest					
Balance, beginning of period		**-**	**-**	**-**	**-**
Business combination	**3**	**93,415**	**-**	**93,415**	**-**
Net income (loss) and comprehensive income (loss)		**1,036**	**-**	**1,036**	**-**
Balance, end of period		**94,451**	-	**94,451**	-
Total equity		**383,800**	100,039	**383,800**	100,039

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

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

	Note	For the three months ended June 30, 2021	For the three months ended June 30, 2020	For the six months ended June 30, 2021	For the six months ended June 30, 2020
Cash flows related to the following activities:					
Operating					
Net income (loss)		**16,899**	(3,262)	**(29,368)**	(11,057)
Adjustments for non-cash items:					
Share-based compensation	**14**	**3,740**	542	**7,670**	1,069
Depreciation	**4,5**	**5,743**	118	**5,853**	236
Exploration and evaluation		**1,024**	1,735	**50,001**	9,115
Share in net earnings of associate		**(15,182)**	-	**(24,211)**	-
Shares issued for services		**64**	80	**287**	145
Unrealized risk management contracts		**28,060**	-	**26,785**	-
Finance costs		**427**	22	**446**	44
Deferred tax recovery		**(9,485)**	-	**(9,485)**	-
Contingent payment consideration		**2,727**	-	**2,727**	-
Gain on acquisition		**(31,751)**	-	**(31,751)**	-
Net change in non-cash working capital		**(18,008)**	(1,011)	**(18,275)**	(835)
Cash flows used in operating activities	**17**	**(15,742)**	(1,776)	**(19,321)**	(1,283)
Investing					
Acquisition through business combination	**3**	**(276,298)**	-	**(283,798)**	-
Cash acquired from business combination	**3**	**95,759**	-	**95,759**	-
Exploration and evaluation		**(2,162)**	(1,050)	**(2,472)**	(1,752)
Property, plant and equipment	**4**	**(1,709)**	(11)	**(1,717)**	(62)
Investment in associate	**6**	**-**	-	**(40,113)**	-
Deferred transaction costs		**-**	(209)	**-**	(209)
Net change in non-cash working capital		**200**	(300)	**316**	(246)
Cash flows used in investing activities	**17**	**(184,210)**	(1,569)	**(232,025)**	(2,269)
Financing					
Issuance of common shares	**12**	**137,414**	-	**146,846**	-
Share issue costs		**-**	-	**(1,304)**	-
Loans and borrowings		**62,130**	-	**62,130**	-
Deferred financing		**(2,158)**	-	**(2,158)**	-
Repayment of finance leases		**(101)**	(91)	**(192)**	(231)
Net cash in non-cash working capital	**17**	**-**	-	**1,378**	-
Cash flows from (used in) financing activities	**17**	**197,285**	(91)	**206,700**	(231)
Net change in cash		**(2,667)**	(3,437)	**(44,646)**	(3,783)
Cash, beginning of period		**12,497**	27,622	**54,476**	27,968
Cash, end of period		**9,830**	24,185	**9,830**	24,185

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

1. Nature and description of the corporation

Kiwetinohk Resources Corp. ("Kiwetinohk" or the "Corporation") is a limited corporation formed on February 12, 2018, pursuant to the Alberta Business Corporations Act.

The Corporation is an integrated energy transition company seeking to produce low carbon energy through the alignment of hydrocarbons and low carbon power generation solutions that will collectively be required to service future energy demand.

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 the Corporation's audited financial statements for the year ended December 31, 2020. These interim condensed consolidated financial statements include the accounts of Distinction Energy Corporation ("Distinction" previously known as Delphi Energy Corp.) of which the Corporation owns 51.5% as at June 30, 2021.

The condensed consolidated interim financial statements have been prepared using historical costs, except for derivative financial instruments 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 August 24, 2021.

Changes to significant accounting policies

Except as described below, the same accounting policies were applied in the interim condensed consolidated financial statements as were used for the Corporation'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 *Operating Segments* 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. Public health measures taken in response to combat the spread of COVID-19 have caused an unprecedented decline of activity within the global economy and created uncertain economic conditions for the oil and gas industry around pricing and global demand.

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. 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, Kiwetinohk 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 Simonette 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 $3.75 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 $9.2 million as at June 30, 2021 on a consolidated basis, with the $2.7 million increase in the liability recognized in the consolidated statement of income (loss).

Total transaction costs were $4.8 million, $4.1 million and $4.8 million of which are recognized in acquisition costs in the statement of net income (loss) and comprehensive income (loss) during the three and six months ended June 30, 2021, respectively. The Simonette Acquisition resulted in a bargain purchase gain of $31.8 million that is mainly attributed to an increase in forecast pricing at closing date. Kiwetinohk 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 purchase method based on net asset and liability fair values as follows using discount rates based on what a market participant would have paid. 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	(28,702)
	297,812
Fair value of net identifiable assets acquired:	
Working capital	1,692
Property, plant, and equipment	345,066
Lease liabilities	(605)
Asset retirement obligations	(7,105)
Deferred tax liabilities	(9,485)
	329,563
Bargain purchase gain	(31,751)
	297,812

From April 28, 2021 to June 30, 2021, the Simonette assets contributed $26.4 million of revenue and $18.4 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 $87.7 million and net income before tax would have been $60.4 million for the period January 1, 2021 to June 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. The amounts below are estimates which were made by management at the time of the preparation of these condensed consolidated 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.

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

Distinction Energy Corp.

On October 16, 2020, the Corporation 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, the Corporation owned 4,870,980 (51.5 percent) of Distinction's issued and outstanding common shares that were previously accounted for under the equity method. The Corporation accounted for its investment in Distinction using the equity method of accounting from October 16, 2020 to April 28, 2021, the period for which the Corporation had significant influence but not control over Distinction. As of April 28, 2021, based on changes in the board of directors, the Corporation owns a controlling interest in 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, the Corporation 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.

Total transaction costs of $0.7 million were recognized in acquisition costs in the condensed consolidated statement of net income (loss) and comprehensive income (loss) during the three and six months ended June 30, 2021.

The Distinction business combination is recognized using the acquisition method at April 28, 2021. The Corporation fair valued its 51.5 percent equity interest immediately prior to consolidation. No consideration was transferred upon the Corporation 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	15,182
Investment in associate immediately prior to acquisition	**99,643**
Fair value of net identifiable assets acquired:	
Working capital (includes $95.8 million of cash acquired)	97,457
Property, plant, and equipment	107,042
Risk management contracts	(1,245)
Lease liabilities	(709)
Asset retirement obligations	(9,487)
	193,058
Non-controlling interest	(93,415)
	99,643

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

Total cash acquired from the acquisition of Distinction was $95.8 million. From the date of acquisition to June 30, 2021, Distinction contributed $9.1 million of revenue and $2.1 million of net income before tax to the Corporation. Had the business combination occurred on January 1, 2021, revenue contributed by Distinction would have been $38.2 million and net income before tax would have been $4.6 million for the period January 1, 2021 to June 30, 2021.

The Corporation 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, Kiwetinohk will acquire all shares of Distinction that it does not already own (approximately 50%) by way of an exchange of 20 Kiwetinohk shares for each Distinction share. Under the Arrangement, Kiwetinohk will succeed to the reporting issuer status of Distinction.

The Arrangement is subject to shareholder and regulatory approvals as well as other customary closing conditions. The special meetings of Distinction shareholders and Kiwetinohk shareholders to vote on the Arrangement are each scheduled to be held on August 30, 2021.

Settlement agreement

Concurrently, with the closing of the Simonette Acquisition, the Corporation 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 which has been recognized as a settlement expense during the three and six months ended June 30, 2021.

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

	June 30, 2021	December 31, 2020
Cost:		
Balance, beginning of period	**1,619**	1,484
Acquisitions	**452,108**	-
Additions – Oil and gas properties	**779**	-
Additions – Right of use asset	**-**	1
Additions - Other	**938**	134
Change in asset retirement obligation	**52,059**	-
Balance, end of period	**507,503**	1,619
Accumulated amortization:		
Balance, beginning of period	**(1,019)**	(544)
Depletion	**(5,853)**	(475)
Balance, end of period	**(6,872)**	(1,019)
Net balance, end of period	**500,631**	600

Future development costs of $1.4 billion were included in the depletion calculation. For the six months ended June 30, 2021, the Corporation capitalized $0.8 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:	June 30, 2021	December 31, 2021
Balance, beginning of period	**108,464**	101,425
Land purchases	**389**	5,484
Well exploration expenditures	**2,083**	676
Change in asset retirement obligation	**1,064**	879
Balance, end of period	**112,000**	108,464
Accumulated amortization:		
Balance, beginning of period	**(32,168)**	(18,493)
Expense related to amortization of well costs	**(3,986)**	(13,675)
Expense related to impairment of land and well costs	**(46,015)**	-
Balance, end of period	**(82,169)**	(32,168)
Net balance, end of period	**29,831**	76,296

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. There were no further indicators of impairment at June 30, 2021.

6. Investment in associate

Cost:	June 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	**22,282**	14,928
Derecognition of investment in associate due to business combination (Note 3)	**(99,643)**	-
Balance, end of period	**-**	36,731

On April 28, 2021, the Corporation 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 June 30,		For the six months ended June 30,	
	2021	2020	**2021**	2020
Oil	**2,431**	1,111	**4,591**	4,024
Natural gas	**13,583**	127	**13,919**	543
Condensate	**21,112**	40	**21,112**	570
NGLs	**5,136**	28	**5,881**	47
	42,262	1,306	**45,503**	5,184
Marketing revenue	**17,771**	-	**17,771**	-
Balance, end of period	**60,033**	1,306	**63,274**	5,184

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 April 28, 2021, the Corporation entered into a consolidated $225.0 million Senior Secured Extendible Revolving Facility ("Credit Facility") with a syndicate of banks composed of $97.5 million for the Corporation and $127.5 million for Distinction. The Credit Facility is composed of an operating facility of $40.0 million and a syndicated facility of $185.0 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 Company. 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 ("EBITDA") ratio: 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 $600.0 million demand floating charge debenture and a general security agreement over all assets of the Corporation. At June 30, 2021, the Corporation has letters of credit outstanding of $15.3 million which reduce the available operating facility capacity. The Corporation's available borrowing capacity at June 30, 2021 is $146.4 million. The Corporation's total loans and borrowings at June 30, 2021 are $60.2 million which includes net deferred financing charges of $1.9 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. Net income (loss) per share

	For the three months ended June 30,		For the six months ended June 30,	
	2021	2020	**2021**	2020
Basic weighted average shares	**295,063**	127,856	242,852	127,856
Effect of dilutive instruments	**-**	-	-	-
Diluted weighted average shares	**295,063**	127,856	242,852	127,856

All options, performance warrants, and capital warrants were anti dilutive for the six months ended June 30, 2021 and were out of the money for the three and six months ended periods ended June 30, 2020 and 2021.

10. Asset retirement obligations

	June 30, 2021	December 31, 2020
Balance, beginning of period	**1,597**	701
Liabilities incurred	**307**	868
Acquisitions	**16,593**	-
Accretion expense	**155**	15
Changes in estimate	**5,269**	-
Revaluation of liabilities acquired[1]	**47,575**	13
Balance, end of period	**71,476**	**1,597**
Current asset retirement obligations	**693**	-
Long term asset retirement obligations	**70,783**	1,597
	71,476	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 (2020 – 1.5 percent), is approximately $75.5 million (2020 - $1.6 million). These cash flows have been discounted using a risk-free interest rate of 1.8 percent (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-six-years. As at June 30, 2021 and December 31, 2020 no funds have been set aside to settle these liabilities.

11. Commitments

$ million	2021	2022	2023	2024	2025	Thereafter
Gathering, processing and transport	28.7	61.6	62.5	64.6	56.5	0.3
Office, equipment and software	0.4	0.5	0.4	0.3	-	-
Accounts payable	17.7	-	-	-	-	-
Land fund	0.4	-	-	-	-	-
Credit facility	-	-	62.1	-	-	-
Environmental development	0.2	0.4	0.4	0.4	0.4	1.4
Total	47.4	62.5	125.4	65.3	56.9	1.7

As part of the Simonette Acquisition, the Corporation assumed natural gas transportation commitments of approximately 90 mmcf per day to deliver gas to Chicago on the Alliance pipeline through October 2025.

12. Shareholders' capital

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

(000s) except share amounts	Number	Stated Value $
Common shares:		
Balance, December 31, 2019	128,116,360	128,048
Equity line of credit cash calls	59,003,856	59,004
Shares issued for services	116,960	117
Balance, December 31, 2020	187,237,176	187,169
Equity line of credit cash calls (net of issue costs)	113,505,784	113,506
Private placement	33,338,978	32,036
Shares issued for services	287,463	287
Balance, June 30, 2021	334,369,401	332,998

On March 15, 2021, the Corporation completed an equity line of credit cash call with its lead investor, ARC Financial Corp. and other investors for $9.5 million. During the second quarter of 2021, the Corporation fully drew on its remaining $79 million equity line of credit. On April 23, 2021, the Corporation issued $36.9 million in subscription receipts that were converted into 36.9 million common shares at $1 per common share on April 28, 2021, upon closing of the Simonette Acquisition. During May 2021 $6 million of the shares above were cancelled and $2.5 million additional common shares were issued at $1 per common share for net proceeds of $33.4 million. Total share issuance costs for the six months ended June 30, 2021 were $1.3 million and were incurred during the first quarter of 2021.

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.

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

14. Share-based compensation plans

Stock options:

	Number of options	Weighted average exercise price ($)
Outstanding, December 31, 2019	14,109,584	1.00
Granted	1,067,778	1.00
Forfeited	(2,294,463)	1.00
Outstanding, December 31, 2020	12,882,899	1.00
Granted	12,746,085	1.00
Forfeited	(38,269)	1.00
Outstanding, June 30, 2021	25,590,715	1.00

Performance warrants:

	Number of performance warrants	Weighted average exercise price $
Outstanding, December 31, 2019	28,219,165	2.00
Granted	2,135,556	2.00
Forfeited	(4,569,791)	2.00
Outstanding, December 31, 2020	25,784,930	2.00
Granted	49,483,644	2.00
Forfeited	(95,674)	2.00
Outstanding, June 30, 2021	75,172,900	2.00

Capital warrants:

	Number of capital warrants
Outstanding, December 31, 2019 and 2020, and June 30, 2021	20,073,300

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%

The expected life of stock options and warrants range from five to seven years. The inputs resulted in a fair value of $0.53 per stock option and $0.36 per performance warrant.

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

15. Financial instruments and risk management

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

Financial instruments carried at fair value include cash, contingent liabilities, and risk management contracts. Cash is classified as a Level 1 measurement and contingent liabilities and risk management contracts are classified as a Level 2 measurement in the three-level 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 six months ended June 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.

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

	June 30, 2021	December 31, 2020
Commodity sales from marketing companies	**20,505**	772
Crown rebate	**215**	517
Government related filings	**4,996**	124
Joint partner	**2,339**	7
Other	**208**	1,387
	28,263	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.

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

With respect to financial 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 financial contracts being classified as unrealized gains and losses in the consolidated statement of loss.

	June 30, 2021	December 31, 2020
Natural gas contract asset (liability)	**(9,361)**	-
Crude oil contracts liability	**(18,627)**	-
Foreign exchange contracts liability	**(287)**	-
	(28,275)	-
Current risk management contracts	**(21,963)**	-
Long term risk management contracts	**(6,312)**	-
	(28,275)	

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

Foreign exchange:

Time Period	Average	Units	Type	Price ($/unit)	Reference price
July 2021 – Oct 2021	$5.4MM	$USD / month	Put	$1.227	$CAD to $US

Oil:

Time Period	Average	Units	Type	Bought Put Price ($/unit)	Sold Call Price ($/unit)	Price ($/unit)	Reference price
Jul 2021 – Dec 2021	750	bbl / d	Swap			55.70 - 58.50	WTI $CAD
Jul 2021 – Dec 2021	6,180	bbl / d	Swap			76.00 - 77.00	WTI $CAD
Jan 2022 – Dec 2022	750	bbl / d	Swap			69.95	WTI $CAD
Jan 2022 – Dec 2022	1,250	bbl / d	Collar	65.00	75.50		WTI $CAD
Jan 2022 – Dec 2022	1,200	bbl / d	Collar	65.00	78.00		WTI $CAD

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

Natural gas:

Time Period	Average	Units	Type	Price ($/unit)	Reference price
Jul 2021 – Dec 2021	11,925	mmbtu/d	Swap	3.56-3.81	HH $CAD
Jul 2021 – Dec 2021	11,925	mmbtu/d	Basis Swap - Purchase	(0.19) - (0.26)	HH to Chicago Monthly $US
Jan 2022 – Jun 2022	4,600	mmbtu/d	Swap	3.30 - 3.69	HH $CAD
Jan 2022 – Jun 2022	4,600	mmbtu/d	Basis Swap - Purchase	(0.095) - (0.195)	Chicago Monthly $US
Jul 2022 – Dec 2022	4,450	mmbtu/d	Swap	3.30-3.44	HH $CAD
Jul 2022 – Dec 2022	4,450	mmbtu/d	Basis Swap - Purchase	(0.095) - (0.25)	HH to Chicago Monthly $US
Jul 2021 – Oct 2021	67,313	GJ/d	Swap	2.77	AECO 5A $CAD
Jul 2021 – Oct 2021	63,800	mmbtu/d	Swap	2.78	Chicago Daily $US
Jul 2021 – Dec 2021	4,725	GJ/d	Swap	2.27-2.43	AECO 5A $CAD
Jan 2022 – Jun 2022	2,250	GJ/d	Swap	2.30-2.49	AECO 5A $CAD
Jul 2022 – Dec 2022	2,025	GJ/d	Swap	2.13-2.25	AECO 5A $CAD
Jul 2021 – Dec 2021	14,143	mmbtu/d	Swap	2.98	HH $US
Jan 2022 – Dec 2022	11,792	mmbtu/d	Swap	2.72	HH $US

The Corporation recognized an unrealized loss of $28.1 million for the three months and six months ended June 30, 2021, and a realized loss of $1.8 million and $3.6 million, respectively.

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 six months ended June 30, 2021, In the Corporation incurred $0.8 million in restructuring costs primarily related to settlement fees and termination benefits.

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

17. Supplemental cash flow information

Changes in non-cash working capital are as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2021	2020	**2021**	2020
Accounts receivable	**(17,226)**	(519)	**(17,513)**	690
Prepaid expenses	**(3,816)**	54	**(3,786)**	25
Accounts payable and accrued liabilities	**3,234**	(846)	**4,718**	(1,796)
Net change in non-cash working capital	**(17,808)**	(1,311)	**(16,581)**	(1,081)
Allocated to:				
Operating activities	**(18,008)**	(1,011)	**(18,275)**	(835)
Investing activities	**200**	(300)	**316**	(246)
Financing activities	**-**	-	**1,378**	-
	(17,808)	(1,311)	**(16,581)**	(1,081)

18. Related party transactions

During the three and six months ended June 30, 2021 the Corporation incurred the following transactions:

	For the three months ended June 30,		For the six months ended June 30,	
	2021	2020	**2021**	2020
Legal services from a law firm where a director is a partner	**160**	17	462	19
Upstream evaluation fees where a director is the CEO	**43**	93	121	205
Upstream oilfield services where a VP is the President	**7**	20	8	90
Total	**210**	130	591	314

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 June 30, 2021, there is $8 thousand (June 30, 2020 - $32 thousand) outstanding in amounts payable to related parties.

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

19. Subsequent events

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

Natural gas:

Time Period	Average	Units	Type	Price ($/unit)	Reference price
Nov 2021 – Mar 2022	40,000	mmbtu/d	Basis Swap - Purchase	(0.70)	HH to AECO Monthly $US
Nov 2021 – Mar 2022	40,000	mmbtu/d	Basis Swap - Sale	0.23	HH to Chicago Monthly $US