kiwetinohk energy

Consolidated Financial Statements

As at and for the years ended
December 31, 2022 and 2021

Deloitte.

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Independent Auditor's Report

To the Shareholders and the Board of Directors of
Kiwetinohk Energy Corp.

Opinion

We have audited the consolidated financial statements of Kiwetinohk Energy Corp. (the "Company"), which comprise the consolidated balance sheet as at December 31, 2022 and 2021, and the consolidated statement of net income and comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (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, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Property, Plant and Equipment - Oil and gas properties - Refer to Note 5 to the financial statements

Key Audit Matter Description

The Company's property, plant and equipment includes oil and gas properties. Oil and gas properties are depleted on a unit of production method ("depletion") based on total estimated proved plus probable oil and gas reserves. The Company engages independent reserve evaluators to estimate oil and gas reserves using estimates, assumptions, and engineering data. The development of the Company's proved plus probable oil and gas reserves used to determine depletion requires management to make significant estimates and assumptions related to future oil and gas prices, reserves, and future operating and development costs.

Given the significant judgments made by management related to future oil and gas prices, reserves, and future operating and development costs, these estimates and assumptions are subject to a high degree of estimation uncertainty. Auditing these estimates and assumptions required auditor judgment in applying audit procedures and in evaluating the results of those procedures.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to future oil and gas prices, reserves, and future operating and development costs used to determine depletion included the following, among others:

- Evaluated future oil and gas prices by independently developing a reasonable range of forecasts based on reputable third-party forecasts and market data and comparing those to the future prices selected by management.
- Evaluated the Company's reserve evaluators by examining reports and assessing their scope of work and findings and assessing the competence, capability and objectivity by evaluating their relevant professional qualifications and experience.
- Evaluated the reasonableness of reserves by testing the source financial information underlying the reserves and comparing the reserve volumes to historical production volumes.
- Evaluated the reasonableness of future operating and development costs by testing the source financial information underlying the estimate and evaluating whether they are consistent with evidence obtained in other areas of the audit.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

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, 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor’s report is David Langlois.

/s/ Deloitte LLP

Chartered Professional Accountants
Calgary, Alberta
March 7, 2023

Consolidated Balance Sheet
(Expressed in thousands of Canadian dollars)

As at December 31,	Note	2022	2021
Assets			
Current			
Cash		**-**	2,343
Accounts receivable	19	**79,847**	43,179
Prepaid expenses and deposits	20	**13,654**	2,035
Inventory		**7**	-
Risk management contracts	19	**2,554**	-
		96,062	47,557
Exploration and evaluation assets	7	**-**	29,604
Property, plant and equipment	5	**790,746**	534,707
Project development costs	6	**22,118**	2,469
Deferred tax asset	18	**23,724**	-
Total assets		**932,650**	614,337
Liabilities			
Current			
Accounts payable and accrued liabilities		**77,048**	54,397
Share based compensation liability	15	**743**	-
Contingent payment consideration	4, 6	**11,969**	5,000
Risk management contracts	19	**13,687**	26,115
Lease liabilities	8	**505**	594
Asset retirement obligations	12	**6,348**	6,210
		110,300	92,316
Share based compensation liability	15	**1,310**	-
Contingent payment consideration	6	**-**	6,551
Lease liabilities	8	**11,162**	-
Risk management contracts	19	**6,634**	2,688
Asset retirement obligations	12	**83,426**	82,480
Loans and borrowings	10	**119,199**	32,868
Total liabilities		**332,031**	216,903
Equity			
Shareholders' capital	14	**440,916**	435,381
Contributed surplus		**30,962**	24,301
Retained earnings (deficit)		**128,741**	(62,248)
Total equity		**600,619**	397,434
Total liabilities and equity		**932,650**	614,337
Commitments	13		
Subsequent events	22		

See the accompanying notes to the consolidated financial statements.

approved on behalf of the Board of Directors:

(signed) "Kevin Brown"	*(signed) "Steve Sinclair"*
Kevin Brown	Steve Sinclair
Board Chair	Audit Committee Chair

Consolidated Statement of Net Income and Comprehensive Income
(Expressed in thousands of Canadian dollars except per share amounts)

For the year ended December 31,	Note	2022	2021
Revenue			
Commodity sales from production	9	**499,898**	182,668
Commodity sales from purchases	9	**268,552**	114,517
Royalty expense		**(44,154)**	(19,526)
Revenue, net of royalties		**724,296**	277,659
Other income			
Share in earnings of associate		**-**	19,618
Unrealized gain (loss) on risk management	19	**11,036**	(28,588)
Realized gain (loss) on risk management	19	**(120,938)**	(36,306)
Other income		**6,689**	2,371
Total revenue and other income		**621,083**	234,754
Expenses			
Operating		**63,204**	29,272
Transportation		**34,628**	18,193
Commodity purchases, transportation and other		**222,483**	107,686
Exploration and evaluation	7	**8,255**	56,238
General and administrative		**17,501**	12,676
Restructuring costs		**-**	2,458
Depletion and depreciation	5	**83,214**	30,203
Finance costs	17	**9,493**	4,585
Share-based compensation	15	**11,270**	14,472
Acquisition costs	4, 5	**181**	8,903
Settlement agreement costs		**-**	10,000
Contingent payment consideration	4, 6	**3,536**	5,037
Gain on acquisition	4	**-**	(32,843)
Total expenses		**453,765**	266,880
Net income (loss) before income taxes		**167,318**	(32,126)
Provision for (recovery of) income taxes			
Current	18	**53**	-
Deferred	18	**(23,724)**	(9,811)
Total income tax recovery		**(23,671)**	(9,811)
Net income (loss) and comprehensive income (loss)		**190,989**	(22,315)
Net income (loss) and comprehensive income (loss) attributable to:			
Common shareholders		**190,989**	(41,511)
Non-controlling interest	4	**-**	19,196
Net income (loss) and comprehensive income (loss)		**190,989**	(22,315)
Net income (loss) per share			
Basic	11	**4.34**	(0.70)
Diluted	11	**4.28**	(0.70)

See the accompanying notes to the consolidated financial statements.

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

For the year ended December 31,	Note	2022	2021
Shareholders' equity			
Shareholders' capital			
Balance, beginning of year		**435,381**	187,169
Issuance of share capital	14	**5,630**	248,212
Repurchase of shares for cancellation	14	**(95)**	-
Balance, end of year		**440,916**	435,381
Contributed surplus			
Balance, beginning of year		**24,301**	8,057
Share-based compensation	15	**9,217**	14,472
Stock options exercised	14	**(2,556)**	-
Replacement stock options	4	**-**	1,772
Balance, end of year		**30,962**	24,301
Retained earnings (deficit)			
Balance, beginning of year		**(62,248)**	(28,972)
Net income (loss) and comprehensive income (loss)		**190,989**	(41,511)
Elimination of non-controlling interest	4	**-**	8,235
Balance, end of year		**128,741**	(62,248)
Total shareholders' equity		**600,619**	397,434
Non-controlling interest			
Balance, beginning of year		**-**	-
Business combination	4	**-**	90,771
Net income		**-**	19,196
Acquisition of non-controlling interest	4	**-**	(101,732)
Elimination non-controlling interest	4	**-**	(8,235)
Balance, end of year		**-**	-
Total equity			397,434

See the accompanying notes to the consolidated financial statements.

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

For the year ended December 31,	Note	2022	2021
Cash flows related to the following activities:			
Operating			
Net income (loss)		**190,989**	(22,315)
Adjustments for non-cash items:			
Share-based compensation	15	**11,270**	14,472
Depletion and depreciation	5	**83,214**	30,203
Exploration and evaluation	7	**7,583**	52,842
Share in net earnings of associate		**-**	(19,618)
Shares issued for services		**-**	287
Unrealized loss (gain) on risk management	19	**(11,036)**	28,588
Accretion of asset retirement obligations	12,17	**2,411**	654
Interest on lease obligations	17	**446**	71
Deferred financing amortization	17	**1,291**	901
Unrealized loss (gain) on foreign exchange	17	**(2,079)**	-
Contingent payment consideration	4, 6	**3,536**	5,037
Gain on acquisition	4	**-**	(32,843)
Deferred tax recovery	18	**(23,724)**	(9,811)
Net change in non-cash working capital	20	**(16,280)**	(11,977)
Asset retirement obligation expenditures	12	**(4,771)**	(671)
Cash flows from (used in) operating activities		**242,850**	35,820
Investing			
Acquisition through business combination	4	**-**	(282,414)
Cash acquired (used) in acquisition	4, 5, 6	**(61,681)**	95,759
Settlement of contingent consideration	4, 6	**(6,500)**	-
Exploration and evaluation	7	**(63)**	(3,816)
Property, plant and equipment	5	**(247,663)**	(44,615)
Prepayment of PP&E	20	**(8,236)**	-
Project development costs	6	**(13,767)**	(2,469)
Proceeds from disposition		**4,358**	-
Investment in associate		**-**	(40,113)
Net change in non-cash working capital	20	**3,400**	12,278
Cash flows from (used in) investing activities		**(330,152)**	(265,390)
Financing			
Issuance of common shares	14	**3,074**	146,193
Repurchase of shares for cancellation	14	**(95)**	-
Increase (decrease) in loans and borrowings	10	**85,040**	31,966
Repayment of lease obligations	8	**(612)**	(722)
Net change in non-cash working capital	20	**(1,905)**	-
Cash flows from (used in) financing activities		**85,502**	177,437
Effect of foreign exchange on cash		**(543)**	-
Net change in cash		**(2,343)**	(52,133)
Cash, beginning of year		**2,343**	54,476
Cash, end of year		**-**	2,343
Cash finance costs paid		**7,997**	2,133
Cash taxes paid		**53**	-

See the accompanying notes to the consolidated financial statements.

1. Nature and description of the Company

Kiwetinohk Energy Corp. (“Kiwetinohk” or the “Company”) is a corporation formed on September 22, 2021, pursuant to the Canada Business Corporations Act. The Company 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 4. Kiwetinohk’s common shares commenced trading on the Toronto Stock Exchange under the symbol KEC on January 14, 2022.

Kiwetinohk’s mission is to build a profitable energy transition business providing clean, reliable, dispatchable, and affordable energy. The Company develops and produces natural gas and related products and is in the process of developing renewable and natural gas-fired power generation projects with an aim of also incorporating carbon capture technology and hydrogen production, all as part of a broader, integrated portfolio of clean energy assets that will support the transition to lower carbon energy in the markets that it serves.

The registered office of the Company is located at Suite 1700, 250 – 2nd Street SW, Calgary, Alberta, T2P 0C1.

2. Basis of Presentation

Statement of compliance and authorization
These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The Company has consistently applied the same accounting policies throughout all years presented.

The financial statements have been prepared using historical costs, except those items that are presented at fair value as detailed in the accounting policies, on a going concern basis and have been presented in thousands of Canadian dollars, unless otherwise noted.

The financial statements were authorized for issue by the Company’s Board of Directors on March 7, 2023.

Economic conditions and impact of COVID-19

In February 2022, Russia began a military invasion of Ukraine marking a sharp escalation of tension within eastern Europe. The invasion has resulted in significant sanctions to Russian financial institutions, investments, individuals and enterprises which have resulted in significant economic uncertainty. The duration of the invasion 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 Company in future periods. In addition, ongoing uncertainty remains as the world eases restrictions related to the COVID-19 pandemic resulting in a return of additional energy demand which still merits caution. 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 Company has incorporated the anticipated impact of these external economic conditions in its estimates and judgments in preparation of these financial statements.

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

3. Significant accounting policies and estimates

Where an accounting policy is applicable to a specific note to the financial statements, the policy is described in italics and grey within that note, with the related financial disclosures and accounting estimate and judgement by major caption as noted in the table below.

Section	Note	Topic	Accounting Policy	Accounting Estimate and Judgement
Business combinations	4	Business combinations	✓	✓
Long term assets	5	Property, plant and equipment	✓	✓
	6	Project development costs	✓	
	7	Exploration and evaluation assets	✓	✓
Operations	9	Revenue	✓	
Obligations	8	Lease obligations	✓	
	10	Loans and borrowings	✓	
	12	Asset retirement obligations	✓	✓
	13	Commitments	✓	
Capital	11	Weighted average shares	✓	
	14	Shareholders' capital	✓	
	15	Share-based compensation plans	✓	✓
	16	Capital management		
Other	17	Finance costs		
	18	Income taxes	✓	✓
	19	Financial instruments and risk management	✓	✓
	20	Supplemental cash flow information		
	21	Related party transactions	✓	
	22	Subsequent events		

Additional significant accounting policies and estimates applicable to the Company are summarized below.

Joint operations
The Company conducts a portion of its petroleum and natural gas operations through joint operations which are joint arrangements whereby the parties have rights to the assets and obligations for the liabilities related to the arrangements. A joint operation involves joint control whereby unanimous consent is required for decisions about relevant activities and capital expenditures. The Company recognizes its share of any assets, liabilities, revenue, and expenses which arise from the joint operation.

Farm-in transactions
The Company may enter into a farm-in arrangement whereby the Company as farmee will fund its share and a portion of the farmor's exploration and development expenditures for the Company to earn a working interest in the farm-in property. These expenditures are reflected in the Company's financial statements when the exploration and development work is incurred based on the accounting policies as described above.

Consolidation of subsidiaries
The financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company:

1. has the power over the investee;
2. is exposed, or has rights, to variable returns from its involvement with the investee; and
3. has the ability to use its power to affects its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

1. the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
2. potential voting rights held by the Company, other vote holders or other parties;
3. rights arising from other contractual arrangements; and
4. any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Beginning February 19, 2021, Kiwetinohk commenced business in the United States through a wholly-owned, controlled, subsidiary with a US dollar functional currency. All inter-company transactions have been eliminated upon consolidation between the Company and any subsidiaries in these financial statements.

Non-controlling interests in subsidiaries are identified separately from the Company's equity therein. Non-controlling interests are initially measured at fair value at acquisition and then subsequently include the non-controlling interests' share of changes in equity. Profit or loss and each component of other comprehensive income or loss are attributed to the owners of the Company and to the non-controlling interests.

Transportation
Transportation costs paid by the Company for the transportation of crude oil, natural gas, condensate, and natural gas liquids to the point of title transfer are recognized when the transportation is provided.

Operating Segments
The Company'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 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. Kiwetinohk's Canadian and US upstream operations are viewed as a single operating segment by the chief operating decision maker of the Company for the purpose of resource allocation and assessing performance and is the only reportable segment as quantitative thresholds have not been met for the Green Energy segment during the years ended December 31, 2022 and 2021.

Future Accounting Pronouncements

The following are future accounting pronouncements issued and not yet effective as at December 31, 2022. The Company intends to adopt these standards as they become effective and is in the process of evaluating the impacts, if any, on the consolidated financial statements and does not expect a significant impact.

IAS 1 – Presentation of Financial Statements

Effective January 1, 2024, amendments to the classification of liabilities as non-current include the requirement that a right to defer settlement must have substance and exist at the end of the reporting period.

IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

Effective January 1, 2023, amendments to IAS 8 include additional clarification on the determination of changes in accounting policies from changes in accounting estimates. The development of accounting estimates includes selecting a measurement technique and choosing the inputs to be used when applying the chosen measurement technique.

IAS 12 – Income Taxes

Effective January 1, 2023, amendments to IAS 12 narrow the scope of the recognition exemption so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

4. Business combinations

Acquisitions that meet the definition of a business are accounted for under the acquisition method which involves the measurement of identifiable assets acquired and liabilities assumed at their acquisition date fair values. Deferred tax assets resulting from the business combination are recognized at acquisition date.

Acquisition-related costs are recognized in profit or loss as incurred. Results of acquired subsidiaries or assets are included in the consolidated statement of net income (loss) and comprehensive income (loss) from the closing date of the acquisition.

The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred, equity instruments issued, and/or liabilities incurred, by the Company to former owners of the acquiree. Examples of forms of consideration may include cash, other assets, equity instruments, options, and contingent consideration.

Goodwill or a bargain purchase gain is recognized if, on acquisition date the aggregate of consideration transferred, non-controlling interest in the acquiree, and previously held equity interests exceed or are lower than the net acquisition date amounts of the identifiable assets acquired and the liabilities assumed, respectively.

Accounting estimates and judgements

The acquirer in a business combination is the entity that obtains control of another entity. The date in which an acquirer obtains control of the acquiree is the acquisition date which may or may not be the date in which legal consideration is transferred and assets and liabilities are assumed.

The determination of the acquisition date fair value of identifiable assets acquired may involve significant judgment of acquired estimated cash flows and other existing conditions which could materially impact the consolidated statement of net income (loss) and comprehensive income (loss) *if new information is obtained about facts and circumstances that existed as of the acquisition date, and if known would have affected the measurement of amounts recognized as of that date. Management has one year from the date of acquisition to confirm and finalize facts and circumstances that support the fair value analysis and related purchase price allocations. Changes to fair values and allocations are retrospectively adjusted in subsequent periods. Significant judgements may include the valuation of property, plant and equipment, asset retirement obligations, and contingent consideration.*

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

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 acquisition closed on April 28, 2021. The purchase price includes the acquisition date fair value and up to $15 million of contingent payments based on average crude oil prices per barrel exceeding specified reference prices of $56.00 per barrel and $62.00 per barrel in 2021 and 2022, respectively.

In 2022, the Company paid $5.0 million in cash towards contingent payments and revalued the remaining contingent consideration to $10.0 million (December 31, 2021 - $6.6 million) with $3.4 million recognized in the consolidated statement of net income and comprehensive income for the year ended December 31, 2022 (December 31, 2021 - $5.0 million). The final $10.0 million contingent payment was made in January 2023.

The Simonette Acquisition was accounted for as a business combination in 2021 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 final 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

(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.

As of April 28, 2021, based on changes in the board of directors, KRC owned a controlling interest in Distinction.

The Distinction business combination was 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 investment in associate was measured at fair value immediately prior to acquisition. The non-controlling interest was measured at the present ownership instruments' proportionate share in the recognized amounts of Distinction's identifiable net assets at April 28, 2021.

The final purchase price allocation is:

	April 28, 2021
Investment in associate	86,233
Share in acquisition date fair value gain and remeasurements	10,589
Investment in associate immediately prior to acquisition	**96,822**
Fair value of net identifiable assets acquired:	
Working capital (net of cash acquired)	90,963
Property, plant and equipment	107,042
Risk management contracts	(215)
Lease liabilities	(709)
Asset retirement obligations	(9,488)
	187,593
Non-controlling interest	(90,771)
	96,822

Distinction amalgamation

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. Under the Arrangement, Kiwetinohk succeeds the reporting issuer status of Distinction.

5. Property, plant and equipment (“PP&E”)

PP&E
Items of PP&E, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and any accumulated impairment expenses.

Costs that are directly attributable to bringing an asset to the location and condition necessary for it to be capable of operating in a manner intended by management are capitalized.

Gains and losses on disposal of any PP&E is determined by comparing the proceeds from disposal with the carrying amount of the related PP&E and is recognized as a gain or loss on disposal.

Depreciation
Depreciation of furniture, leasehold improvements, information technology software and hardware, and other administrative assets is calculated on a straight-line basis over the estimated useful lives of the related assets which range from 3 to 5 years.

Right-of-use assets
The Company recognizes a right-of-use asset and a liability for leases with lease terms greater than one year. The right-of-use asset is measured at cost and depreciated over the lesser of the lease term or its estimated useful life. At the commencement date, the lease liability is measured at the present value of future lease payments. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company’s incremental borrowing rate.

Accounting estimates and judgements
Reserves
There are uncertainties associated with estimating quantities of proved reserves and probable reserves and in projecting future rates of production, timing of expenditures, and internal rates of return. Reserves information contains estimates prepared by the Company’s independent reserve evaluators with respect to certain of the Company’s oil, natural gas liquids (“NGL”), and natural gas properties. Information relating to oil, NGL, and natural gas properties may ultimately prove to be inaccurate.

Estimates of economically recoverable oil, NGL and natural gas reserves and resources and of future net cash flows necessarily depend upon a number of variable factors and assumption, such as historical production from the area compared with production from other producing areas, assumptions concerning commodity prices, the quality, quantity, and interpretation of available relevant data, future site restoration and abandonment costs, the assumed effects of regulations by governmental agencies and assumptions concerning future oil, NGL and natural gas prices, future operating costs, royalties, severance and excise taxes, capital investments and workover and remedial costs, all of which may vary considerably from actual results. Differences in estimates can have an impact on the carrying values of PP&E, E&E, and rates of depletion. Reserves information are prepared in accordance with National Instrument 51-101 Standards of Disclosure of Oil and Gas Activities.

Impairment
PP&E assets are grouped into Cash Generating Units (“CGUs”) for impairment testing. CGUs are defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Company evaluates the geography, geology, production profile and infrastructure of its assets in determining its CGUs. The Company reviews the composition of its CGUs at each reporting date to assess whether any changes are required in light of new facts and circumstances.

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

CGUs are assessed for potential internal or external impairment indicators at the end of each reporting period. If an impairment indicator is identified, an impairment test is performed by comparing the carrying amount to the CGU's recoverable amount, which is defined as the higher of an asset's fair value less costs of disposal and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or CGU and discounted using a pre-tax rate, and fair value is the price that would be received to sell an asset in an orderly transaction between market participants. Any excess of the carrying value over the recoverable amount is recognized as an impairment expense.

Depletion
When significant components of PP&E, such as fields, processing facilities or pipelines have different useful lives, they are accounted for and depleted separately as major components.

PP&E is depleted on a unit of production method based on the following:
(1) Total estimated recoverable reserves gross of royalties;
(2) Total capitalized costs plus estimated future development costs; and
(3) Petroleum and natural gas are converted to a common unit of measurement on the basis of their relative energy content, where six thousand cubic feet of natural gas equates to one barrel of oil.

	Development and production	Office furniture and equipment	Right of use assets	Total
Cost				
Balance at January 1, 2021	255	378	985	1,618
Acquisitions	450,899	-	605	451,504
Additions	44,251	364	9	44,624
Change in decommissioning asset	68,182	-	-	68,182
Balance at December 31, 2021	563,587	742	1,599	565,928
Acquisitions	59,181	-	-	59,181
Additions	247,183	480	11,226	258,889
Change in decommissioning asset	5,219	-	-	5,219
Transfers from E&E (Note 7)	107,998	-	-	107,998
Balance at December 31, 2022	**983,168**	**1,222**	**12,825**	**997,215**
Accumulated depletion and depreciation				
Balance at January 1, 2021	-	(259)	(759)	(1,018)
Depletion and depreciation	(29,826)	(123)	(254)	(30,203)
Balance at December 31, 2021	(29,826)	(382)	(1,013)	(31,221)
Depletion and depreciation	(81,837)	(95)	(1,187)	(83,119)
Transfers from E&E (Note 7)	(92,129)	-	-	(92,129)
Balance at December 31, 2022	**(203,792)**	**(477)**	**(2,200)**	**(206,469)**
Net book value				
At December 31, 2021	533,761	360	586	534,707
At December 31, 2022	**779,376**	**745**	**10,625**	**790,746**

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

Future development costs of $2.3 billion were included in the depletion calculation (December 31, 2021 – $1.1 billion). For the year ended December 31, 2022, the Company capitalized $1.9 million (December 31, 2021 – $1.4 million) of general and administrative expenses directly to PP&E.

During the year ended December 31, 2022, the Company transferred a net of $15.9 million from exploration and evaluation assets into PP&E. There were no impairment indicators upon transfer or at December 31, 2022.

On September 15, 2022, the Company acquired an incremental working interest in its Placid CGU for cash consideration of $59.2 million. The Company elected to perform the optional concentration test under IFRS 3 *Business Combinations* which permits a simplified assessment of whether an acquired set of activities and assets constitutes a business. The optional concentration test was met as substantially all of the fair value of the assets acquired was concentrated in a single identifiable asset or group of similar identifiable assets and as a result the purchase was accounted for as an asset acquisition.

6. Project development costs

Project development costs related to initial evaluation, design, regulatory, environmental, or engineering work are expensed in the period in which they are incurred.

Project development costs are capitalized when it is probable that the project will be an economic success based on evaluation of the following:
(1) The technical feasibility of completing the project so that it will be available for use or sale;
(2) The intention to complete the project and use or sell it;
(3) The ability to use or sell the project;
(4) How the project will generate probable future economic benefit;
(5) The availability of adequate technical, financial, and other resources necessary to complete the project; and
(6) Costs of the project can be measured reliably.

Project development costs that are capitalized are reported at cost less accumulated amortization and less any accumulated impairment losses. At the end of each reporting period, project development costs are evaluated to determine whether there is any indication that these assets have suffered an impairment loss. If an impairment indicator is identified, an impairment test is performed by comparing the carrying amount to the asset's recoverable amount, which is defined as the higher of the asset's fair value less costs of disposal and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset discounted using a pre-tax rate and fair value is the price that would be received to sell an asset in an orderly transaction between market participants. Any excess of the carrying value over the recoverable amount is recognized as an impairment expense.

	2022	2021
Cost		
Balance, beginning of year	**2,469**	-
Engineering related costs	**13,767**	2,469
Acquisition	**5,881**	-
Balance, end of year	**22,118**	2,469

For the year ended December 31, 2022, the Company capitalized $0.9 million (December 31, 2021 – $0.3 million) in general and administrative expenses directly to project development costs.

On May 18, 2022, the Company entered into an agreement to purchase an early stage 170 – 300 MW solar development project for cash consideration of up to $9.0 million, of which $2.5 million was paid upon closing and $3.4 million was recognized as consideration contingent on certain milestones being achieved. Milestones are based on successfully advancing regulatory requirements and interconnection capacity reviews. The Company elected to perform the optional concentration test under IFRS 3 *Business Combinations* which permits a simplified assessment of whether an acquired set of activities and assets constitutes a business. The optional concentration test was met as substantially all of the fair value of the assets acquired was concentrated in a single identifiable asset or group of similar identifiable assets and as a result the purchase was accounted for as an asset acquisition.

The Company paid $1.5 million in August of 2022 upon resolution of the first milestone and revalued the remaining contingent consideration to $2.0 million as at December 31, 2022. All remaining payments are expected in 2023. Contingent consideration was measured based on a probability weighted present value of expected cash flows on acquisition and will be re-evaluated quarterly.

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

Costs incurred prior to obtaining the legal right to explore in a specific area are expensed as incurred.

E&E costs include the costs of acquiring licenses, seismic, land acquisitions, technical services, and studies, drilling exploratory wells, testing, and estimated asset retirement costs. E&E costs are accumulated in cost centers by field or exploration area until technical feasibility and commercial viability is determined. Technical feasibility and commercial viability of an exploration project is dependent upon (1) the assignment of a sufficient amount of economically recoverable reserves to commence commercial development, and (2) the necessary internal and external approvals in place for management's decision to commence commercial development.

Any proceeds from production while an asset is in the E&E stage is recorded as revenue with operating results recognized in the consolidated statement of net income (loss) and comprehensive income (loss). A depletion charge is recognized on these assets using the unit-of-production method based on estimated proved developed producing reserves when an estimate of total recoverable volumes is available, otherwise on a straight-line basis over 5 years. Non-producing E&E assets are reviewed each period for any changes in value with any amortization recorded over the appropriate lease term.

Upon determination of technical feasibility and commercial viability, the exploration project is first tested for impairment and then transferred from E&E assets to property, plant and equipment.

Gains and losses on disposal of any E&E is determined by comparing the proceeds from disposal with the carrying amount of the related E&E and is recognized as a gain or loss on disposal.

Impairment
E&E assets are assessed for impairment indicators at the end of each reporting period based on qualitative factors which include lease expiry, negative drilling results, and the intention or ability of the Company to continue exploration. E&E assets are impaired at the CGU level. An impairment charge is recognized if the carrying value of the E&E assets exceeds the recoverable amount. If a decision is made by management not to continue an E&E project, all associated costs are charged to E&E expenses at that time.

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

Accounting estimates and judgements
Establishment of technical feasibility and commercial viability is subject to judgement, which management has determined to be based on a sufficient amount of economically recoverable reserves and approvals to commence commercial development.

The amounts recorded for depletion and depreciation of E&E assets is based on estimates of proved developed producing reserves, production rates, future petroleum and natural gas prices, future costs, and the remaining lives and period of future benefit of the related assets.

	2022	2021
Cost		
Balance, beginning of year	**114,614**	108,464
Land purchases	**13**	419
Exploration expenditures	**50**	3,397
Disposition of E&E properties	**(6,725)**	-
Change in asset retirement obligation	**46**	2,334
Transfer to PP&E (Note 5)	**(107,998)**	-
Balance, end of year	**-**	114,614
Accumulated depletion		
Balance, beginning of period	**(85,010)**	(32,168)
Expense related to amortization of well costs	**(1,299)**	(5,427)
Expense related to impairment of land and well costs	**(6,367)**	(47,415)
Disposition of E&E properties	**547**	-
Transfer to PP&E (Note 5)	**92,129**	-
Balance, end of year	**-**	(85,010)
Net balance, end of year	**-**	29,604

Following the Simonette Acquisition (Note 4) and redirection of expected future capital expenditures towards the Fox Creek area, the Company identified an impairment indicator on existing E&E assets in the West Central Alberta CGU during the second quarter of 2022. The Company executed plans to re-prioritize its development and drilling plans to higher return undeveloped land locations and as a result, the Company recognized impairment relating to near-term land expiries of $6.4 million (2021 - $24.4 million).

For the year ended 2022, the Company transferred net book value of $15.9 million of producing properties from exploration and evaluation assets into PP&E. The Company performed an impairment assessment during the second quarter at the time of transferring proved and probable reserves at the published three consultants' average June 30, 2022 price forecast discounted at 15% with no impairment recognized (2021 - $21.6 million).

8. Lease obligations

The Company recognizes a right-of-use asset and a liability for leases with lease terms greater than one year. The right-of-use asset is measured at cost and depreciated over its estimated useful life. At the commencement date, the lease liability is measured at the present value of future lease payments. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

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

	2022	2021
Balance, beginning of period	**594**	505
Accretion of lease liabilities	**446**	71
Lease payments	**(612)**	(722)
Additions	**11,239**	-
Acquired through business combination	**-**	740
Balance, end of year	**11,667**	594
Classification of lease obligations:		
Current liability	**505**	594
Long-term liability	**11,162**	-
Balance, end of year	**11,667**	594

The Company has lease liabilities for contracts related to office space held. During the second quarter of 2022, the Company entered into a new lease agreement for office space until August 31, 2031. The Company discounted lease payments at the inception of the lease using a weighted average incremental borrowing rate of 7.5% to calculate the lease liability which resulted in a lease liability and corresponding right-of-use asset of $11.2 million.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Company recognizes payments associated with these leases as an expense over the lease term.

9. Revenue

Commodity sales from production
Revenue associated with the sale of crude oil, natural gas, condensate and natural gas liquids ("NGLs") owned by the Company is recognized when title is transferred from the Company to its customers. The Company considers its performance obligations to be satisfied and control to be transferred when all the following conditions are satisfied:

(1) The Company has transferred title and physical possession of the goods to the buyer based on the terms specified in the contract;
(2) The Company has transferred the significant risks and rewards of ownership of the goods to the buyer; and
(3) The Company has the present right to payment when performance obligations are met.

Commodity sales from purchases
The Company purchases natural gas in Canada from third parties to fulfill take-or-pay transportation commitments on pipelines. The ultimate sale of purchased natural gas is reflected as commodity sales from purchases. Commodity purchases, transportation and other include the original commodity purchase, related transportation expense and any related marketing fees.

	2022	2021
Oil & condensate	**261,941**	96,367
NGLs	**54,393**	22,659
Natural gas	**183,564**	63,642
Commodity sales from production	**499,898**	182,668
Commodity sales from purchases	**268,552**	114,517
Total revenue	**768,450**	297,185

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

10. Loans and borrowings

Loans and borrowings are initially measured at fair value and subsequently measured at amortized cost using the effective interest method. The fair value of loans and borrowings approximates carrying value as floating market rates of interest are used in measurement.

Senior Secured Extendible Revolving Facility ("Credit Facility")

On June 13, 2022 the Company amended and increased the consolidated Credit Facility by $60.0 million to $375.0 million with a syndicate of banks. The Credit Facility was confirmed at $375.0 million on November 2, 2022 through the semi-annual redetermination with no changes in terms. The Credit Facility is composed of an operating facility of $65.0 million and a syndicated facility of $310.0 million. The Credit Facility is a 364-day committed facility available on a revolving basis until May 31, 2023, 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, 2024. The borrowing base is determined based on the lenders' evaluation of the Company'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 Company's debt to earnings before interest, taxes, depreciation and amortization ("bank 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 Company's bank EBITDA.

The Credit Facility is secured by a $1.0 billion demand floating charge debenture and a general security agreement over all assets of the Company. At December 31, 2022, the Company has letters of credit outstanding of $40.8 million (December 31, 2021 - $52.3 million) of which, $14.4 million has been provided for through the EDC facility (see below), resulting in $26.4 million in letters of credit which reduce the available operating facility capacity. The Company's available borrowing capacity at December 31, 2022 is $229.5 million (December 31, 2021 - $228.0 million).

	2022	2021
Credit facility drawn	**119,738**	34,698
Deferred financing costs	**(539)**	(1,830)
Balance, end of year	**119,199**	32,868

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

EDC Credit Facility

In March 2022, Kiwetinohk entered into a new $15.0 million unsecured demand revolving letter of credit facility (the "LC Facility") with Export Development Canada ("EDC"). Kiwetinohk's obligations under the LC Facility are supported by a performance security guarantee ("PSG"). The PSG is valid to May 31, 2024 and may be extended from time-to-time at the option of Kiwetinohk and with the agreement of EDC. As at December 31, 2022, the Company has $0.6 million of capacity remaining under the LC Facility.

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

11. Weighted average shares

Basic per share amounts are computed by dividing the net income by the weighted average number of common shares outstanding during the period. Diluted per share amounts are calculated using the treasury stock method giving effect to the potential dilution that would occur if stock options and warrants were exercised.

	2022	2021
Basic weighted average shares	**44,046**	31,689
Effect of dilutive instruments	**548**	-
Diluted weighted average shares	**44,594**	31,689

12. Asset retirement obligations ("ARO")

Asset retirement obligation is recorded for the abandonment and restoration obligations associated with PP&E and E&E assets. The offsetting capitalized amount recorded to PP&E or E&E is depreciated on a unit of production basis as described above. Subsequent to the initial measurement, the ARO liability is adjusted at the end of each period to reflect the passage of time which is recorded as an accretion expense. Changes in the estimated future cash flows and any changes to the discount rate result in an increase or decrease to ARO and the offsetting PP&E or E&E capitalized amount. Actual costs incurred upon settlement of the ARO liability are recorded against the liability.

Accounting estimates and judgements
ARO estimates are based on current legal and constructive requirements, technology, price levels, cost inflation, the risk-free interest rate, timing, and expected plans for remediation. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, market conditions, discovery and analysis of site conditions, and changes in technology.

	2022	2021
Balance, beginning of year	**88,690**	1,597
Liabilities incurred	**3,567**	2,465
Acquisitions	**4,541**	16,593
Accretion expense	**2,411**	654
Changes in estimate	**(12,388)**	20,481
Revaluation of liabilities acquired [1]	**-**	47,571
Asset retirement obligation expenditures	**4,771**	(671)
Disposition	**(1,818)**	
Balance, end of year	**89,774**	88,690
Current asset retirement obligations	**6,348**	6,210
Long term asset retirement obligations	**83,426**	82,480
Balance, end of year	**89,774**	88,690

1 – Revaluation of asset retirement obligations acquired through business combination (Note 4) using a risk-free interest rate.

The Company's asset retirement obligations result from its ownership in oil and natural gas assets, including well sites, facilities and gathering systems. The Company estimates the total future cash flows to settle its ARO is $117.5 million, or $202.6 million inflated at 2.09% (December 31, 2021 – 2.00 percent) and undiscounted. These cash flows have been discounted using a risk-free interest rate of 3.28% (December 31, 2021 – 2.00%) to arrive at the present value estimate of $89.8 million.

The changes in inflation and discount rates applied resulted in a $26.3 million decrease to the liability, offset by the Company revising its cost estimates of future obligations to be reflective of abandonment ARO activity completed during 2022, to arrive at a net $12.4 million reduction in ARO. The Company expects these obligations to be settled over one to forty-five years.

13. Commitments

At each reporting date, the Company recognises unrecognised contractual commitments as the undiscounted contractually agreed upon minimum payments.

Provisions are recognized when the Company has a present obligation as a result of a past event, payment is probable, and the amount can be estimated reliably. The amount recognized as a provision is the best estimate of the expenditures required to settle the obligation at the balance sheet date using a present value technique and a risk-free pre-tax rate.

$ million	2023	2024	2025	2026	2027	Thereafter
Gathering, processing and transport	74.2	76.8	67.6	15.3	16.8	40.6
Natural gas purchases	49.7	-	-	-	-	-
Lease liabilities	0.5	1.8	2.1	2.2	2.2	7.8
Other	0.4	0.4	0.4	0.4	0.4	0.7
Total	124.8	79.0	70.1	17.9	19.4	49.1

As part of the Simonette Acquisition and Distinction business combination, the Company assumed natural gas transportation commitments of approximately 120.0 MMcf per day to deliver gas to Chicago on the Alliance pipeline through October 2025. The Company has entered into various gas purchase agreements to fill the underutilized portion of the Alliance pipeline through October 2023.

14. Shareholders' capital

Common shares issued represent a residual interest in the Company and are recognized as a change in shareholders' capital. Qualifying costs attributable to an equity transaction are recognized as a deduction to equity.

The Company is authorized to issue an unlimited number of voting common shares.
(000s) except share amounts

Common shares	Number	$
Balance, December 31, 2020	18,723,718	187,169
Equity line of credit cash calls	11,350,578	113,506
Private placement (net of issue costs)	3,398,341	32,687
Shares issued for services	28,746	287
Shares issued on Distinction Acquisition (Note 4)	10,173,200	101,732
Balance, December 31, 2021	43,674,583	435,381
Stock options exercised [1]	508,598	5,630
Repurchase of shares for cancellation	(6,471)	(95)
Balance, December 31, 2022	44,176,710	440,916

1 – Common shares received on exercise of stock options excludes the impact of cash-less settlements during the period.

On December 20, 2022, the Company announced the approval of its normal course issuer bid ("NCIB") to purchase and cancel up to 2.2 million Common Shares over a 12-month period, commencing December 22, 2022. During the year ended December 31, 2022, the Company purchased 6,471 common shares at a total cost of $0.1 million ($14.69 per share).

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

15. Share-based compensation plans

Equity-settled share-based awards to directors, officers, and employees include options, performance warrants and capital warrants and are measured at the fair value of the equity instruments at the grant date. The fair value is expensed over the vesting period based on the Company's estimate of equity instruments that will eventually vest with a corresponding increase in contributed surplus. When equity instruments are exercised, the cash proceeds together with the amount previously recorded as contributed surplus are recorded as shareholders' capital. The Company incorporates an estimated forfeiture rate for equity instruments that will not vest, and subsequently adjusts for actual forfeitures as they occur.

Cash-settled incentive awards to directors, officers and employees include Deferred Share Units, Performance Share Units and Restricted Share Units. Cash-settled incentives are recognized as a liability and are measured at fair value of the instrument each reporting period, with changes recognized through profit and loss. The fair value is determined at the end of each reporting period by the trading price of the Company's shares, an estimated forfeiture rate and an estimated payout multiplier for performance share units.

Accounting estimates and judgements
The significant inputs to the Black-Scholes option pricing model include the fair value of the shares at issue date, expected volatility, dividend yield, forfeitures, and discount rates.

The significant inputs to the cash-settled awards include the fair value of the shares at reporting date, forfeitures, and payout multipliers.

Equity-settled incentive plans

Stock Options
The Company has a stock option plan for directors, officers, employees and consultants of the Company. The aggregate number of stock options that may be granted at any time under the plan shall not exceed 10 percent of the aggregate number of issued and outstanding common shares.

Options are subject to vesting conditions and unless otherwise determined by the board of directors at the time of grant, options time vest one-third after one, two and three years after the date of grant and expire seven years from the date of grant. Options are settled by issuing shares of the Company or can be cashless exercised upon a liquidity event.

	Number of options	Weighted average exercise price ($)
Outstanding, December 31, 2020	**1,288,290**	10.00
Granted	**1,394,819**	10.00
Forfeited	**(64,290)**	10.00
Subtotal	**2,618,819**	10.00
Distinction options assumed (Note 4)	**608,872**	7.50
Outstanding, December 31, 2021	**3,227,691**	9.30
Granted	**284,113**	13.47
Exercised	**(752,415)**	7.88
Forfeited	**(42,603)**	10.00
Outstanding, December 31, 2022	**2,716,786**	10.36

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

	Options outstanding		Options Exercisable	
Exercise Price	Number of options	Weighted average contractual life remaining (years)	Number of options	Weighted average exercise price ($)
10.00 – 12.00	2,432,673	4.1	1,574,715	10.00
12.01 – 14.00	99,750	6.2	-	-
14.01 – 16.00	184,363	6.9	-	-
10.36	2,716,786	4.4	1,574,715	10.00

Performance Warrants

The Company has a performance warrant plan for directors, officers, employees, and consultants of the Company. The Company does not have the ability to issue any further performance warrants as a public company. Each performance warrant, when vested, entitles the holder thereof to acquire one common share at various exercise prices of $15.00, $17.50, $20.00, $22.50, and $25.00.

The performance warrants are subject to time vesting conditions. Unless otherwise determined by the board of directors at the time of grant, performance warrants vest one-third after one, two and three years after the date of grant. Performance warrants may be exercised at or before the earlier of August 20, 2025, or a liquidity event. Warrants are settled by issuing shares of the Company or can be cashless exercised upon a liquidity event.

	Number of performance warrants	Weighted average exercise price ($)
Outstanding, December 31, 2020	**2,578,494**	20.00
Granted	**5,464,497**	20.00
Forfeited	**(120,655)**	20.00
Outstanding, December 31, 2021	**7,922,336**	20.00
Forfeited	**(367,078)**	20.00
Outstanding, December 31, 2022	**7,555,258**	20.00

	Warrants Outstanding		Warrants Exercisable	
Range of Exercise Prices $	Number of Warrants	Weighted average contractual life remaining (years)	Number of Warrants	Weighted average exercise price ($)
15.00	1,511,057	3.6	833,734	15.00
17.50	1,511,056	3.6	833,734	17.50
20.00	1,511,050	3.6	833,730	20.00
22.50	1,511,048	3.6	833,729	22.50
25.00	1,511,047	3.6	833,733	25.00
20.00	7,555,258	3.6	4,168,660	20.00

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

	2022	2021
Risk-free interest rate	2.71%	0.91%
Expected life	7.0	5.0 – 7.0
Expected volatility [1]	50%	50%
Expected dividend rate	0%	0%
Expected forfeiture rate	5%	10%
Weighted average fair value	$7.32	$3.21

1 – Kiwetinohk has estimated the expected volatility over the life of the option based on a peer group average for intermediate oil and gas and power companies.

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

Cash-settled incentive plans

Deferred share units
The Company has a deferred share unit ("DSU") incentive plan for members of the board of directors. Each DSU entitles participants to receive cash equal to the trading price of the equivalent number of shares of the Company. All DSUs granted vest immediately upon grant and become payable upon retirement of the director.

The compensation expense was calculated using the fair value method based on the trading price of the Company's shares at the end of each reporting period.

Performance share units
The Company has a performance share unit ("PSU") incentive plan for employees and officers. Each PSU entitles the holder to be issued a lump sum cash payment based on the trading price of the equivalent number of shares of the Company, multiplied by a payout multiplier based on the total shareholder return on its Common Shares relative to peer performance and a three-year vesting period.

The multiplier ranges from 0.0x – 2.0x and is calculated based on an annual performance period at the time of vesting as determined and approved by the Board of Directors. All PSUs granted time vest one-third on June 30, 2023 and one-third each subsequent year, maturing on June 30, 2025.

The compensation expense was calculated using the fair value method based on the trading price of the Company's shares at the end of each reporting period, including an estimated forfeiture rate of 5%, an estimated performance multiplier as at December 31, 2022 and a three-year vesting period.

Restricted share units
The Company has a restricted share unit ("RSU") award incentive plan for employees and officers. Each RSU entitles the holder to be issued a lump sum cash payment based on the trading price of the equivalent number of shares of the Company as at the time of vesting. All RSUs granted time vest one-third on June 30, 2023 and one-third each subsequent year, maturing on June 30, 2025.

The compensation expense was calculated using the fair value method based on the trading price of the Company's shares at the end of each reporting period, including an estimated forfeiture rate of 5% and a three-year vesting period.

All cash award incentive plans have been recognized as a compensation liability on the Consolidated Balance Sheet.

The following table summarizes the change in the number of awards:

(number of awards)	DSUs	PSUs	RSUs
Outstanding, December 31, 2021	-	-	-
Granted	47,422	142,494	184,195
Outstanding, December 31, 2022	47,422	142,494	184,195

The following table summarizes the change in compensation liability relating to awards:

($000)	DSUs	PSUs	RSUs
Balance, December 31, 2021	-	-	-
Awards granted	693	603	757
Balance, December 31, 2022	693	603	757

Classification of compensation liability:	2022	2021
Current liability	**743**	-
Long-term liability	**1,310**	-
Balance at end of year	**2,053**	-

16. Capital management

The Company's objective when managing its capital is to maintain a conservative structure that provides financial flexibility to execute on strategic opportunities and new business opportunities. The Company manages its capital structure and adjusts it in response to changes in economic conditions. The Company's capital is comprised of shareholders' equity, loans and borrowings, and working capital. The Company plans to use its credit facility for working capital purposes to fund go forward plans in advance of cash flow from new investments and will target a net debt to last-twelve months of adjusted funds flow from operations ratio of no more than 1.0 times.

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

Adjusted funds flow from operations
Adjusted funds flow from operations is cash flow from (used in) operating activities before changes in net change in non-cash working capital from operating activities, asset retirement obligations, restructuring costs, acquisition costs and settlement agreement costs. Management uses adjusted funds flow from operations to analyze performance and considers it a key measure as it demonstrates the Company's ability to generate the cash necessary to fund future capital investments, asset retirement obligations and to repay debt.

	2022	2021
Cash flow from operating activities	**242,850**	35,820
Net change in non-cash operating working capital from operating activities	**16,280**	11,977
Asset retirement obligation expenditures	**4,771**	671
Restructuring costs	**-**	2,458
Acquisition costs	**181**	8,903
Settlement agreement costs	**-**	10,000
Adjusted funds flow from operations	**264,082**	69,829

Adjusted working capital (deficit) surplus
Adjusted working capital (deficit) surplus is comprised of current assets less current liabilities excluding risk management contracts. Adjusted working capital (deficit) surplus is used by management to provide a more complete understanding of the Company's liquidity. The current portion of risk management contracts has been excluded as there is no intention to realize these financial instruments and they are also subject to a high degree of volatility prior to ultimate settlement.

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

	2022	2021
Current assets	**96,062**	47,557
Current liabilities	**(110,300)**	(92,316)
Working capital deficit	**(14,238)**	(44,759)
Risk management contracts net liabilities	**11,133**	26,115
Adjusted working capital deficit	**(3,105)**	(18,644)

Net debt and net debt to annualized adjusted funds flow from operations

Net debt is comprised of loans and borrowings plus adjusted working capital surplus (deficit) and represents the Company's net financing obligations. Net debt is used by management to provide a more complete understanding of the Company's capital structure and provides a key measure to assess the Company's liquidity.

Net debt to annualized adjusted funds flow from operations is a liquidity ratio that represents the Company's ability to cover its net debt with its adjusted funds flow from operations. Net debt to annualized adjusted funds flow is calculated as net debt divided by the trailing four quarter adjusted funds flow from operations.

	2022	2021
Loans and borrowings	**119,199**	32,868
Adjusted working capital deficit	**3,105**	18,644
Net debt	**122,304**	51,512
Net debt to annualized adjusted funds flow from operations	**0.46**	0.74

17. Finance costs

	2022	2021
Interest and bank charges	**7,424**	2,959
Accretion of asset retirement obligations	**2,411**	654
Interest on lease obligations	**446**	71
Deferred financing amortization	**1,291**	901
Unrealized loss (gain) on foreign exchange	**(2,079)**	-
Finance costs	**9,493**	4,585

18. Income taxes

Current tax

Current tax payable is based on taxable income for the year. Taxable income differs from income as reported in the consolidated statement of net income and comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income, except to the extent that it relates to items recognized directly in shareholders' equity, in which case the income tax is recognized directly in shareholders' equity. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

Accounting estimates and judgements
Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which such deductible temporary differences can be utilized.

Provision for (recovery of) income taxes

For the year ended December 31, 2022, the Company incurred current tax expense of $0.1 million relating to the United States subsidiary. The Company's provision for (recovery of) income taxes for the year ended December 31, 2022 is comprised of:

	2022	2021
Current	**53**	-
Deferred tax recovery	**(23,724)**	(9,811)
Income tax recovery	**(23,671)**	(9,811)

A reconciliation of the Company's income tax recovery recognized is as follows:

	2022	2021
Net income before income taxes	**167,318**	(32,126)
Combined federal and provincial tax rate	**23%**	23.0%
Expected income tax expense/(recovery)	**38,483**	(7,389)
Effect on income tax of:		
Share-based compensation	**2,120**	3,329
Change in valuation allowance [1]	**(66,408)**	2,070
True up of provision to tax returns as filed	**1,727**	-
Impact of amalgamation on investment in associate	**-**	(2,989)
Share of earnings in associate	**-**	(4,553)
Rate reduction and other	**354**	(279)
Current tax expense	**53**	-
Income tax recovery	**(23,671)**	(9,811)

1 – Balance has been presented net of fair value adjustments on acquired assets in 2021

Deferred taxes

	2022	2021
Deferred income tax assets:		
Asset retirement obligations	**20,648**	20,399
Share and debt issue costs	**613**	690
Non-capital losses	**49,709**	54,113
Risk management contracts	**4,086**	6,625
Lease obligations	**2,683**	137
Contingent payment consideration	**2,733**	-
Other	**513**	(49)
Deferred income tax liabilities:		
E&E and PP&E	**(51,741)**	(17,596)
Project development costs	**(5,520)**	(568)
Net deferred income tax asset	**23,724**	63,751
Deferred income tax asset not recognized	**-**	(63,751)
Deferred income tax asset	**23,724**	-

Deferred income tax assets may only be recognized to the extent that it is probable that future taxable profits will be available against which unused tax losses and deductible temporary differences can be utilized. As of December 31, 2022, the Company recognized a deferred tax asset of $23.7 million as the Company expects to have sufficient taxable profits in the future in order to utilize its non-capital losses with the earliest expiries occurring in 2038. Deferred tax assets have been recognized net of deferred tax liabilities.

At December 31, 2022, the Company has total tax pools of $777 million (December 2021 – $724 million), including non-capital loss carry-forwards of $216 million (December 2021 – $235 million) available to reduce future years' income for tax purposes.

19. Financial instruments and risk management

The Company's financial instruments recognized on the consolidated balance sheet includes cash, accounts receivable, deposits, accounts payable and accrued liabilities, contingent payment consideration, loans and borrowings, and risk management contracts.

Classification
The Company's financial instruments are classified and measured at amortized cost or fair value through profit or loss ("FVTPL").

Financial assets are measured at amortized cost if the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and the contractual cash flows give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. All other financial assets are measured at FVTPL.

Presentation
Financial assets and financial liabilities are offset, and the net amount presented in the consolidated balance sheet when an entity has a legally enforceable right to offset the recognised amounts; and intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Accounting estimates and judgements
Financial instruments measured at fair value are estimated using the following hierarchy for observable inputs:
(1) Level 1 inputs – Quoted prices in active markets for identical assets or liabilities that the Company can access at date of measurement;
(2) Level 2 inputs – Inputs other than quoted prices included in level 1 that are observable either directly or indirectly; and
(3) Level 3 inputs – Unobservable inputs for the asset or liability.

Financial instruments carried at fair value include cash, contingent payment consideration, share based compensation liability, and risk management contracts. Cash is classified as a Level 1 measurement and contingent payment consideration, share based compensation liability and risk management contracts are classified as a Level 2 measurement in the fair value measurement hierarchy. All other financial instruments are measured at amortized cost.

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, crude oil, foreign exchange and basis differential contracts on the consolidated balance sheet 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 net income (loss) and comprehensive income (loss).

The carrying value of accounts receivable, deposits and accounts payable and accrued liabilities approximate fair value due to their short terms to maturity. Loans and borrowings approximate their *fair value due to the use of floating rates. Lease liabilities have a carrying value that does not significantly differ compared to fair value.*

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

Impairment of financial assets
Impairment of accounts receivable is measured at an amount equal to lifetime expected credit losses as they do not contain significant financing components.

The Company's financial instruments recognized on the consolidated balance sheet in accordance with the accounting policies above includes cash, accounts receivable, deposits, accounts payable and accrued liabilities, lease liabilities, share based compensation liability, contingent payment consideration, loans and borrowings, and risk management contracts.

The nature of financial instruments exposes the Company to credit risk, liquidity risk, and market risk.

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

The Company's cash balances and risk management contracts are held with large established financial institutions. The Company manages credit risk by ensuring transactions are only entered into with counterparties with strong credit worthiness and regular internal reviews are performed on the Company's exposure to these counterparties, the majority of which is short-term.

The majority of credit risk exposure on accounts receivable at December 31, 2022, relates to accrued sales revenue for December 2022 production volumes and marketing of purchased gas. Purchasers of the Company's commodity sales typically remit amounts to the Company by the 25th day of the month following the month of production. At December 31, 2022, nine commodity purchasers accounted for more than 5% of the total accounts receivable balance individually, and 81% together. None are considered a credit risk.

The Company's maximum exposure to credit risk is as follows:

	2022	2021
Commodity sales from production and marketing	**73,914**	37,799
Government related filings	**4,205**	2,483
Joint venture	**1,609**	2,885
Other	**119**	12
Total accounts receivable	**79,847**	43,179
Cash	**-**	2,343
Total exposure	**79,847**	45,522

Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company operates in a capital-intensive industry with medium to long-term cash cycles. The Company may face lengthy development lead times, as well as risks associated with rising capital costs and timing of project completion because of the availability of resources, permits and other factors beyond its control. The Company regularly monitors its cash requirements by assessing its ability to generate cash flow from operations, access to external financing, debt obligations as they become due, and its expected future operating and capital expenditure requirements.

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

The Company's expected cash outflows relating to financial liabilities at December 31, 2022 are as follows:

$ million	2023	2024	2025	2026	2027	Thereafter
Accounts payable	77.0	-	-	-	-	-
Contingent payment consideration	12.0	-	-	-	-	-
Cash-settled compensation liability[1]	0.7	0.4	0.3	-	-	0.7
Lease liabilities	0.5	1.8	2.1	2.2	2.2	7.8
Loans and borrowings[2]	-	119.7	-	-	-	-
Risk management contracts	11.1	6.6	-	-	-	-
Total	101.3	128.5	2.4	2.2	2.2	8.5

1 – cash outflows relating to the DSU cash-settled compensation liability will be paid when each director retires. The Company has no available information to estimate the year of cash outflow and therefore the entirety of the DSU expected outflow been assigned to "Thereafter".
2 – represents current debt drawn repaid at the end of the Credit Facility term

Market risk
Market risk is the risk that fluctuations in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Company's consolidated statement of net income and comprehensive income to the extent the Company has outstanding financial instruments.

Interest rate risk
The Company is exposed to interest rate risk to the extent that changes in market interest rates impact interest incurred on loans through its credit facility. The Company's bankers' acceptances primarily have terms of one month and are subject to floating rate exposure upon each renewal. Based on the monthly average outstanding loan balance for the year, a 1.0% change in interest rates would result in the following increase or decrease in finance costs for the year ended December 31, 2022:

	Increase	Decrease
1% change in interest rate impact on finance costs	**655**	(655)

Commodity price risk and foreign currency risk
The nature of the Company's operations result in exposure to fluctuations in commodity prices. Additionally, the Company is exposed to foreign currency fluctuations as crude oil and natural gas prices are referenced in U.S. dollar denominated prices. The demand for energy including petroleum and natural gas sales is generally linked to economic activities. A slowdown in economic growth, an economic downturn or recession, or other adverse economic or political developments in North America or globally, could result in a significant adverse effect on global financial markets which could in turn cause commodity price and foreign currency fluctuations which could negatively impact the Company's operations and cash flows.

Management continuously monitors commodity prices and foreign exchange rates and may from time to time enter into risk management contracts to manage exposure to these risks in accordance with Board approved risk management guidelines.

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

The Company has the following commodity risk management contracts outstanding at December 31, 2022:

Type		Q1 2023	Q2 2023	Q3 2023	Q4 2023	2024
Crude oil						
WTI fixed price	bbl/d	1,700	1,700	1,950	1,100	500
WTI buy put	bbl/d	3,250	2,750	1,750	1,750	1,000
WTI sell call	bbl/d	2,500	2,250	1,750	1,750	500
WTI swap average	US$/bbl	$69.25	$68.59	$67.94	$70.41	$70.62
WTI buy put average	US$/bbl	$80.08	$77.73	$74.14	$74.14	$66.50
WTI sell call average	US$/bbl	$93.85	$91.49	$89.05	$89.05	$77.90
Natural gas [2]						
NYMEX Henry Hub fixed price	MMBtu/d	12,500	12,500	12,500	8,000	2,500
NYMEX Henry Hub buy put	MMBtu/d	26,500	24,500	23,667	17,000	7,500
NYMEX Henry Hub sell call	MMBtu/d	14,000	9,500	11,167	9,500	2,500
NYMEX Henry Hub buy call	MMBtu/d	5,000	5,000	-	-	-
NGI Chicago basis to NYMEX Henry Hub	MMBtu/d	17,500	12,500	12,500	-	-
NYMEX Henry Hub fixed price average	US$/MMBtu	$3.35	$3.35	$3.35	$3.34	$3.23
NYMEX Henry Hub buy put average	US$/MMBtu	$5.37	$4.84	$4.87	$4.91	$4.00
NYMEX Henry Hub sell call average	US$/MMBtu	$11.00	$5.41	$5.59	$5.70	$5.40
NYMEX Henry Hub buy call average	US$/MMBtu	$8.00	$8.00	-	-	-
NGI Chicago basis to NYMEX Henry Hub average	US$/MMBtu	$0.14	$0.01	$0.01	-	-
Natural gas transportation [2,3]						
Purchase AECO 5A basis (to NYMEX Henry Hub)	MMBtu/d	25,000	25,000	25,000	8,333	-
Sell GDD Chicago basis (to NYMEX Henry Hub)	MMBtu/d	(25,000)	(25,000)	(25,000)	(8,333)	-
AECO 5A basis (to NYMEX Henry Hub) average	US$/MMBtu	$(1.28)	$(1.28)	$(1.28)	$(0.43)	-
GDD Chicago basis (to NYMEX Henry Hub) average	US$/MMBtu	$0.10	$0.10	$0.10	$0.03	-

1 – Prices per unit and volumes per day are represented at the average amounts for the period.
2 – All basis swap pricing is in $USD / unit relative to NYMEX Henry Hub benchmark pricing.
3 – Natural gas transportation hedges relate to basis pricing differentials between AECO and Chicago on firm transportation commitments.

The Company has the following foreign exchange risk management contracts outstanding at December 31, 2022:

Type		Q1 2023	Q2 2023	Q3 2023	Q4 2023	2024
Crude oil						
Sell USD CAD (monthly average)	US$	-	-	-	-	-
USD CAD buy put	US$	$2.5 MM	-	-	-	-
USD CAD sell call	US$	$2.5 MM	-	-	-	-
USD CAD fixed sell rate		-	-	-	-	-
USD CAD put rate		1.26	-	-	-	-
USD CAD call rate		1.30	-	-	-	-

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

The Company offsets risk management assets and liabilities if the Company has a legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously. The following table is a summary of the company's risk management in the Consolidated Balance Sheet as at December 31, 2022 and the impact of offsetting contracts.

	Gross Financial Assets (Liabilities)	Gross Financial Assets (Liabilities) offset	Net Financial Assets (Liabilities) on Balance Sheet
As at December 31, 2021			
Current asset	169,593	169,593	-
Long term asset	15,514	15,514	-
Current liability	(195,708)	(169,593)	(26,115)
Long term liability	(18,202)	(15,514)	(2,688)
Net risk management position	(28,803)	-	(28,803)
As at December 31, 2022			
Current asset	15,510	12,955	2,554
Long term asset	56	56	-
Current liability	(26,643)	(12,955)	(13,687)
Long term liability	(6,690)	(56)	(6,634)
Net risk management position	(17,767)	-	(17,767)

A summary of the Company's total loss on risk management contracts for the year ended December 31, 2022, is as follows:

	2022	2021
Realized gain (loss) on production	**(86,107)**	(30,766)
Realized gain (loss) on purchases	**(34,079)**	(4,935)
Realized gain (loss) on foreign exchange	**(752)**	(605)
Total realized gain (loss)	**(120,938)**	(36,306)
Unrealized gain (loss)	**11,036**	(28,588)
Total gain (loss) on risk management	**(109,902)**	(64,894)

The following table demonstrates the sensitivity of the Company's risk management contracts in place at December 31, 2022 to fluctuations in commodity prices:

	Sensitivity	Increase (decrease) in net income	Increase (decrease) in net income
Natural gas [1]	±10%	(8,810)	9,905
Crude oil [2]	±10%	(13,867)	14,542
Foreign exchange [3]	±1%	101	(103)

1 – Natural gas sensitivities are based on a 10% increase or decrease of natural gas pricing and basis differentials for contracts entered into as at December 31, 2022.

2 – Crude oil sensitivities are based on a 10% increase or decrease of WTI for contracts entered into as at December 31, 2022.

3 – Foreign exchange sensitivities are based off a $0.01 increase or decrease in the USD CAD exchange rate for contracts entered into as at December 31, 2022.

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

20. Supplemental cash flow information

Changes in non-cash working capital are as follows:

	2022	2021
Accounts receivable	**(32,327)**	(36,428)
Prepaid expenses and deposits	**(3,383)**	(2,216)
Inventory	**(7)**	-
Accounts payable and accrued liabilities	**20,932**	38,945
Net change in non-cash working capital	**(14,785)**	301
Allocated to:		
Operating activities	**(16,280)**	(11,977)
Investing activities	**3,400**	12,278
Financing activities	**(1,905)**	-
	(14,785)	301

In the fourth quarter of 2022, the Company made a $8.2 million prepayment to secure casing to be delivered in 2023. This balance is recorded within Prepaid expenses and deposits as at December 31, 2022, and the cash payment has been recorded as a stand-alone investing line item on the Consolidated Statement of Cash Flows and as a result is not included within net changes in non-cash working capital.

21. Related party transactions

Related parties and related party transactions
A related party is a person or entity that is related to the entity. Related parties include:

(1) A person or close member of that person's family is related to a reporting entity if that person has control, significant influence, or is a member of the key management personnel of the reporting entity.
(2) An entity is related to the entity if any of the following conditions applies: (i) The entity and the reporting entity are members of the same group; (ii) the entity is controlled or jointly controlled by a person identified in (1); and (iii) a person identified in (1) has significant influence over the entity or is a member of the key management personnel of the entity.

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Key management personnel
Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any director (executive or otherwise) of the entity.

Key management compensation includes all forms of consideration paid, payable, provided by the entity in exchange for services from key management personnel. Compensation includes short term employee benefits, post employment benefits, other long-term employee benefits, termination benefits, and share-based payments.

Key Management Compensation
The aggregate expense of key management personnel, which include, the CEO and four other members of the senior management team that report directly to the CEO was as follows:

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

	2022	2021
Salaries, bonus, benefits, and other personnel costs	**2,289**	2,127
Share-based compensation	**2,764**	2,813
Total	**5,053**	4,940

During the year ended December 31, 2022, the Company incurred the following transactions:

	2022	2021
Legal services from a law firm where a director is a partner	1,067	2,098
Upstream evaluation fees where a director is the Chairman of the Board of Directors	292	339
Upstream oilfield services where a VP is the President [1]	-	22
Total	1,359	2,459

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

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 December 31, 2022, there is $0.1 million (December 31, 2021 - $0.1 million) outstanding in amounts payable to related parties included in accounts payable and accrued liabilities.

22. Subsequent events

Risk Management Contracts

Subsequent to December 31, 2022, the Company entered into the following risk management contracts:

Type	Unit	2023	2024	2025
Crude oil contracts				
WTI buy call [2]	bbl/d	250	-	-
WTI sell call [2]	bbl/d	104	250	-
WTI buy put [2]	bbl/d	104	250	-
WTI buy call average	US$/bbl	$85.00	-	-
WTI sell call average	US$/bbl	$80.00	$77.05	-
WTI buy put average	US$/bbl	$75.00	$70.00	-
Natural gas				
NYMEX Henry Hub buy call	MMBtu/d	2,500	-	-
NYMEX Henry Hub buy call average	US$/MMBtu	$7.00	-	-
Foreign exchange				
Buy USD CAD put (monthly average)	US$	$15.0 MM	$10.0 MM	-
Sell USD CAD call (monthly average)	US$	$15.0 MM	$10.0 MM	-
USD/CAD swap	US$	$11.5MM	$9.0 MM	$4.0 MM
USD/CAD swap rate		$1.34	$1.33	$1.32
Buy USD/CAD put rate		$1.32	$1.32	-
Sell USD/CAD call rate		$1.36	$1.35	-

1 – Prices per unit and volumes per day are represented at the average amounts for the period.
2 – Additional contracts were layered into the Company's existing risk management portfolio as part of the Company's risk management policy. The Company does not seek to speculate on commodity price movements through the hedging program.