kiwetinohk energy

Condensed Consolidated Interim Financial Statements

As at and for the three months ended
March 31, 2022

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

	Note	As at March 31, 2022	As at December 31, 2021
Assets			
Current			
Cash		**-**	2,343
Accounts receivable	15	**54,022**	43,179
Prepaid expenses and deposits		**1,634**	2,035
Assets held for sale	17	**5,241**	-
		60,897	47,557
Exploration & evaluation assets	6	**21,288**	29,604
Property, plant, and equipment	4	**576,912**	534,707
Project development costs	5	**3,148**	2,469
Total assets		**662,245**	614,337
Liabilities			
Current			
Accounts payable and accrued liabilities		**65,534**	54,397
Contingent payment consideration	3	**10,000**	5,000
Risk management contracts	15	**56,319**	26,115
Lease liabilities		**364**	594
Asset retirement obligations	10	**4,647**	6,210
Liabilities held for sale	17	**1,818**	-
		138,682	92,316
Contingent payment consideration	3	**-**	6,551
Risk management contracts	15	**9,994**	2,688
Asset retirement obligations	10	**83,500**	82,480
Loans and borrowings	8	**52,055**	32,868
Total liabilities		**284,231**	216,903
Equity			
Shareholders’ capital	12	**439,197**	435,381
Contributed surplus		**25,617**	24,301
Deficit		**(86,800)**	(62,248)
Total equity		**378,014**	397,434
Total liabilities and equity		**662,245**	614,337
Commitments	11		
Subsequent events	17		

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

Condensed Consolidated Interim Statement of Net Loss and Comprehensive Loss

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

For the three months ended March 31,	Note	2022	2021
Revenue			
Commodity sales from production	7	**79,866**	3,242
Commodity sales from purchases	7	**60,598**	-
Royalty expense		**(8,039)**	(213)
Revenue, net of royalties		**132,425**	3,029
Other income			
Share in earnings of associate		**-**	9,029
Unrealized gain (loss) on risk management contracts	15	**(37,510)**	1,275
Realized loss on risk management contracts	15	**(13,227)**	(3,023)
Other income		**1,042**	57
Management fees		**-**	642
Total revenue and other income		**82,730**	11,009
Expenses			
Operating		**11,402**	587
Transportation		**5,424**	47
Commodity purchases, transportation and other	7	**60,002**	-
Exploration and evaluation	6	**3,255**	49,925
General and administrative		**4,976**	2,006
Depletion and depreciation	4	**12,913**	110
Finance costs	14	**2,576**	19
Share-based compensation	13	**3,285**	3,930
Acquisition costs	3	**-**	652
Contingent payment consideration	3	**3,449**	-
Total expenses		**107,282**	57,276
Net loss before income taxes		**(24,552)**	(46,267)
Income tax recovery			
Current		**-**	-
Deferred		**-**	-
Total income tax recovery		**-**	-
Net loss and comprehensive loss		**(24,552)**	(46,267)
Net loss per share			
Basic and diluted	9	**(0.56)**	(2.43)

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

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

For the three months ended March 31,	Note	2022	2021
Shareholders' equity			
Shareholders' capital			
Balance, beginning of period		**435,381**	187,169
Stock options exercised	12	**3,816**	8,351
Balance, end of period		**439,197**	195,520
Contributed surplus			
Balance, beginning of period		**24,301**	8,057
Share-based compensation	13	**3,285**	3,930
Stock options exercised	12	**(1,969)**	-
Balance, end of period		**25,617**	11,987
Deficit			
Balance, beginning of period		**(62,248)**	(28,972)
Net loss and comprehensive loss		**(24,552)**	(46,267)
Balance, end of period		**(86,800)**	(75,239)
Total shareholders' equity		**378,014**	132,268

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

Condensed Consolidated Statement of Cash Flows

(Expressed in thousands of Canadian dollars, unaudited)

For the three months ended March 31,	Note	2022	2021
Cash flows related to the following activities:			
Operating			
Net loss		**(24,552)**	(46,267)
Adjustments for non-cash items:			
Share-based compensation	13	**3,285**	3,930
Depletion and depreciation	4	**12,913**	110
Exploration and evaluation	6	**2,747**	48,976
Share in net earnings of associate		**-**	(9,029)
Shares issued for services		**-**	223
Unrealized loss on risk management contracts	15	**37,510**	(1,275)
Accretion of asset retirement obligations	14	**437**	19
Interest on lease obligations	14	**11**	-
Deferred financing amortization	14	**323**	-
Unrealized loss on foreign exchange	14	**879**	-
Contingent payment consideration	3	**3,449**	-
Net change in non-cash working capital	16	**(11,014)**	(266)
Asset retirement obligation expenditures	10	**(656)**	-
Cash flows from (used in) operating activities		**25,332**	(3,579)
Investing			
Settlement of contingent consideration	3	**(5,000)**	-
Deposit on acquisition	3	**-**	(7,500)
Exploration and evaluation	6	**(55)**	(310)
Property, plant and equipment	4	**(53,478)**	(8)
Project development costs	5	**(679)**	-
Proceeds from disposition		**238**	-
Investment in associate	3	**-**	(40,113)
Net change in non-cash working capital	16	**11,298**	116
Cash flows used in investing activities		**(47,676)**	(47,815)
Financing			
Issuance of common shares	12	**1,847**	8,128
Increase in loans and borrowings	8	**18,395**	-
Repayment of lease obligations		**(241)**	(91)
Net change in non-cash working capital	16	**-**	1,378
Cash flows from financing activities		**20,001**	9,415
Net change in cash		**(2,343)**	(41,979)
Cash, beginning of period		**2,343**	54,476
Cash, end of period		**-**	12,497
Cash finance costs paid		**1,434**	-

See the accompanying notes to the condensed consolidated interim 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 3. 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, low-cost energy. The Company develops and produces natural gas and related products and is in the process of developing renewable, natural gas-fired power, carbon capture and hydrogen clean energy projects.

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

2. Basis of Presentation

These unaudited condensed consolidated interim financial statements (the “financial statements”) have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting,* using accounting policies consistent with International Financial Reporting Standards (“IFRS”). These financial statements are condensed as they do not include the information required by IFRS for annual financial statements and therefore should be read in conjunction with the Company’s audited financial statements for the year ended December 31, 2021.

The financial statements have been prepared using historical costs on a going concern basis and have been presented in Canadian dollars.

The financial statements were authorized for issue by the Company’s Board of Directors on May 11, 2022.

Changes to significant accounting policies

The same accounting policies were applied in these financial statements as were used for the Company’s audited financial statements for the year ended December 31, 2021.

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 with respect to 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 COVID-19 in its estimates and judgments in preparation of these financial statements.

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

3. Business combinations

Simonette

On February 17, 2021, KRC and Distinction entered into various agreements to participate as to 50 percent each in a $320 million asset acquisition of oil and natural gas properties in the Simonette region (the “Simonette Acquisition”).

In January 2022, the Company paid $5.0 million in cash towards contingent payments in relation to the Simonette Acquisition as WTI prices exceeded USD $56.00 on average per barrel in 2021. The Company has revalued the remaining contingent payment consideration to $10.0 million (December 31, 2021 - $11.6 million) with $3.4 million recognized in the condensed consolidated interim statement of net loss and comprehensive loss for the three months ended March 31, 2022 (three months ended March 31, 2021 - $nil).

Both KRC and Distinction had issued a prepayment of $7.5 million each on February 17, 2021 towards the Simonette Acquisition.

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

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. For further information refer to the Company’s audited financial statements for the year ended December 31, 2021.

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

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

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

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

Cost:	March 31, 2022	December 31, 2021
Balance, beginning of period	**565,928**	1,618
Acquisitions	**-**	451,504
Additions – Oil and gas properties	**53,478**	44,251
Additions – Right of use asset	**-**	9
Additions - Other	**-**	364
Change in asset retirement obligation	**1,590**	68,182
Balance, end of period	**620,996**	565,928
Accumulated depletion and depreciation		
Balance, beginning of period	**(31,221)**	(1,018)
Depletion	**(12,863)**	(30,203)
Balance, end of period	**(44,084)**	(31,221)
Net balance, end of period	**576,912**	534,707

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

For the three months ended March 31, 2022, the Company capitalized $0.3 million (Twelve months ended December 31, 2021 - $1.4 million) of general and administrative expenses directly to PPE.

There were no impairment indicators at March 31, 2022 or December 31, 2021.

5. Project development costs

Cost:	**March 31, 2022**	December 31, 2021
Balance, beginning of period	**2,469**	-
Additions	**679**	2,469
Balance, end of period	**3,148**	2,469

For the three months ended March 31, 2022, the Company capitalized $0.1 million (Twelve months ended December 31, 2021 - $0.3 million) in general and administrative expenses directly to project development costs.

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

Cost:	**March 31, 2022**	December 31, 2021
Balance, beginning of period	**114,614**	108,464
Land purchases	**11**	419
Exploration expenditures	**44**	3,397
Disposition of E&E properties	**(238)**	-
Change in asset retirement obligation	**(96)**	2,334
Reclassified to asset held for sale	**(5,241)**	-
Balance, end of period	**109,094**	114,614
Accumulated depletion		
Balance, beginning of period	**(85,010)**	(32,168)
Expense related to amortization of well costs	**(771)**	(5,427)
Expense related to impairment of land and well costs	**(2,025)**	(47,415)
Balance, end of period	**(87,806)**	(85,010)
Net balance, end of period	**21,288**	29,604

Following the Simonette Acquisition (Note 3) 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 cash generating unit ("CGU") during the first quarter of 2022 and 2021. As the Company plans to re-prioritize its development and drilling plans to higher return undeveloped land locations, there was $2.0 million of impairment recorded relating to near-term land expiries that may not be developed at the current time (2021 - $24.4 million). In addition, during the first quarter of 2021 the Company performed an impairment test on its West Central Alberta CGU based on the recoverable amount estimated, using a fair value less cost-to-sell approach derived from expected future cash flows from proved developed producing reserves, using a 15 percent pre-tax discount rate, which resulted in the recognition of a $21.6 million impairment.

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

7. Revenue

For the three months ended March 31,	2022	2021
Condensate	**36,210**	543
Oil	**9,234**	2,161
NGLs	**9,274**	202
Natural gas	**25,148**	336
Commodity sales from production	**79,866**	3,242
Commodity sales from purchases	**60,598**	-
Total revenue	**140,464**	3,242

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. Costs of purchased natural gas are presented as commodity purchases, transportation and other within the condensed consolidated interim statement of net loss and comprehensive loss and include the original commodity purchase, related transportation expense and any related marketing fees.

8. Loans and borrowings

Senior Secured Extendible Revolving Facility ("Credit Facility")

	March 31, 2022	December 31, 2021
Credit facility drawn	**53,562**	34,698
Deferred financing costs	**(1,507)**	(1,830)
Balance, end of period	**52,055**	32,868

On December 10, 2021 the Company amended and restated its credit agreement, entering into a consolidated $315.0 million Credit Facility with a syndicate of banks. The Credit Facility is composed of an operating facility of $65.0 million and a syndicated facility of $250.0 million. The Credit Facility is a 364-day committed facility available on a revolving basis until May 31, 2022, at which time it may be extended at the lenders' option. If the revolving period is not extended, the undrawn portion of the Credit Facility will be cancelled and the amount outstanding would be required to be repaid at the end of the non-revolving term, being May 31, 2023. The borrowing base is determined semi-annually 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, or 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 ratio of the Company's debt to earnings before interest, taxes, depreciation and amortization ratio ("debt to EBITDA ratio") as defined in the Credit Facility agreement. Based on the Company's debt to EBITDA ratio, margins applicable to prime rate or US base rate loans may range from 1.75 percent to 5.25 percent and stamping fees applicable to bankers' acceptances may range from 2.75 percent to 6.25 percent. The undrawn portion of the Credit Facility is subject to standby fees ranging from 0.6875 percent to 1.5625 percent based on the Company's debt to EBITDA ratio.

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

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

At March 31, 2022, the Company has total letters of credit outstanding of $38.7 million (December 31, 2021 - $52.3 million) of which, $6.0 million have been issued under the EDC Guaranteed LC Facility(described below), resulting in $32.7 million in letters of credit which reduce the available operating facility capacity. The Company's available borrowing capacity at March 31, 2022 is $237.7 million (December 31, 2021 - $228.0 million).

EDC Guaranteed LC Facility
On February 10, 2022, Kiwetinohk entered into a new $15.0 million unsecured demand revolving letter of credit facility (the "LC Facility") with a Canadian bank. Kiwetinohk's obligations under the LC Facility are supported by a performance security guarantee ("PSG") from Export Development Canada ("EDC"). The PSG is valid to February 10, 2023 and may be extended from time-to-time at the option of Kiwetinohk and with the agreement of EDC. As at March 31, 2022, the Company has $9.0 million of capacity remaining under the LC Facility.

9. Weighted average shares

For the three months ended March 31,	2022	2021
Basic weighted average shares	**43,815**	19,006
Effect of dilutive instruments	**-**	-
Diluted weighted average shares	**43,815**	19,006

All options, performance warrants, and capital warrants were anti-dilutive for the three months ended March 31, 2022 and 2021 as the Company was in a net loss position.

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

10. Asset retirement obligations ("ARO")

	March 31, 2022	December 31, 2021
Balance, beginning of period	**88,690**	1,597
Liabilities incurred	**900**	2,465
Acquisitions	**-**	16,593
Accretion expense	**437**	654
Changes in estimate	**594**	20,481
Revaluation of liabilities acquired [1]	**-**	47,571
Asset retirement obligation expenditures	**(656)**	(671)
Reclassified as liabilities held for sale	**(1,818)**	
Balance, end of period	**88,147**	88,690
Current asset retirement obligations	**4,647**	6,210
Long term asset retirement obligations	**83,500**	82,480
Balance, end of period	**88,147**	88,690

1 – Revaluation of asset retirement obligations acquired through business combination (Note 3) 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 total estimated undiscounted cash flows required to settle the obligations, inflated at 2.0 percent (December 31, 2021 – 2.0 percent), are approximately $88.1 million (December 31, 2021 - $88.7 million). These cash flows have been discounted using a risk-free interest rate of 2.0 percent (December 31, 2021 – 2.0 percent) based on Government of Canada long-term benchmark bonds. The Company expects these obligations to be settled over one to thirty-six years.

11. Commitments

$ million	2022	2023	2024	2025	2026	Thereafter
Gathering, processing and transport	52.5	70.9	73.0	63.7	13.5	48.4
Natural gas purchases	92.2	15.8	-	-	-	-
Lease liabilities	0.4	-	-	-	-	-
Land fund	0.4	-	-	-	-	-
Other	-	0.4	0.4	0.4	0.4	1.1
Total	145.4	87.1	73.4	64.1	13.9	49.5

As part of the Simonette acquisition, the Company assumed natural gas transportation commitments of approximately 90.3 MMcf per day to deliver gas to Chicago on the Alliance pipeline through October 2025. The Company has a liquids extraction agreement with Aux Sable through October 2023. Through Distinction, the Company acquired a separate independent transportation agreement with Alliance to deliver 29.7 MMcf/d of natural gas volumes until October 31, 2025 to Chicago that is not contracted to Aux Sable.

The Company currently has secured 80,000 GJ per day of gas supply (approximately 70.1 MMcf per day) from several natural gas producers through 2022 and approximately 10,000 GJ/d (approximately 8.6 MMcf/d) in 2023, allowing the Company to fully utilize its Alliance pipeline capacity. As a result, the Company is able to use proceeds from purchased gas volumes sold to meet all of its transportation and purchase commitments.

12. Shareholders' capital

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 3)	10,173,200	101,732
Balance, December 31, 2021	43,674,583	435,381
Stock options exercised	367,932	3,816
Balance, March 31, 2022	44,042,515	439,197

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

13. Share-based compensation plans

Stock Options

	Number of options	Weighted average exercise price ($)
Outstanding, December 31, 2020	**1,288,290**	10.0
Granted	**1,394,819**	10.0
Forfeited	**(64,290)**	10.0
Subtotal	**2,618,819**	10.0
Distinction options assumed (Note 3)	**608,872**	7.50
Outstanding, December 31, 2021	**3,227,691**	9.53
Granted	**88,750**	10.0
Exercised	**(575,252)**	7.65
Outstanding, March 31, 2022	**2,741,189**	9.94

Performance Warrants

	Number of performance warrants	Weighted average exercise price ($)
Outstanding, December 31, 2020	**2,578,494**	20.0
Granted	**5,464,497**	20.0
Forfeited	**(120,655)**	20.0
Outstanding, December 31, 2021	**7,922,336**	20.0
Forfeited	**(70,000)**	20.0
Outstanding, March 31, 2022	**7,852,336**	20.0

Share-based compensation

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

	2022	2021
Risk-free interest rate	2.20%	0.91%
Expected life	7.0	5.0 – 7.0
Expected volatility [1]	51%	50%
Expected dividend rate	0%	0%
Expected forfeiture rate	5%	10%
Weighted average fair value	$5.39	$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 companies.

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

14. Finance costs

For the three months ended March 31,	2022	2021
Interest and bank charges	926	-
Accretion of asset retirement obligations	437	19
Interest on lease obligations	11	-
Deferred financing amortization	323	-
Unrealized loss on foreign exchange	879	-
Finance costs	2,576	19

15. Financial instruments and risk management

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

Financial instruments carried at fair value include cash, contingent payment consideration, and risk management contracts. Cash is classified as a Level 1 measurement and contingent payment consideration and risk management contracts are classified as a Level 2 measurement in the fair value measurement hierarchy.

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 condensed consolidated interim 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 condensed consolidated interim statement of net loss and comprehensive loss.

The carrying value of accounts receivable, deposits, accounts payable and accrued liabilities, lease 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. Funds held in trust and long-term liability have a carrying value that does not significantly differ compared to fair value.

The nature of financial instruments exposes the Company to market risk, credit risk, and liquidity 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 short-term exposure with these counterparties.

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

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

	March 31, 2022	December 31, 2021
Commodity sales from production and marketing	**53,706**	37,799
Government related filings	**-**	2,480
Joint venture	**224**	2,885
Other	**92**	15
Total accounts receivable	**54,022**	43,179
Cash	**-**	2,343
Total exposure	**54,022**	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 and liquidity position 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.

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

$ million	2022	2023	2024	2025	2026	Thereafter
Accounts payable	65.6	-	-	-	-	-
Contingent payment consideration	-	10.0	-	-	-	-
Lease liabilities	0.4	-	-	-	-	-
Loans and borrowings[1]	-	53.6	-	-	-	-
Risk management contracts	49.2	17.1	-	-	-	-
Total	115.2	80.7	-	-	-	-

1 – includes debt principal repayments

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 condensed consolidated interim statement of net loss and comprehensive loss 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 floating market interest rates impact interest incurred on its credit facility.

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.

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

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 Policy.

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

Type		Q2 2022	Q3 2022	Q4 2022	2023	2024
Crude oil						
WTI fixed price	bbl/d	750	750	750	900	-
WTI fixed price (USD)	bbl/d	-	-	-	275	500
WTI buy put	bbl/d	2,167	2,033	1,883	-	-
WTI sell call	bbl/d	2,167	2,033	1,883	-	-
WTI swap average	C$/bbl	$69.95	$69.95	$69.95	$82.60	-
WTI swap average	US$/bbl	-	-	-	$70.41	$70.62
WTI buy put average	C$/bbl	$65.00	$65.00	$65.00	-	-
WTI sell call average	C$/bbl	$76.69	$76.67	$76.65	-	-
Natural gas [2]						
NYMEX Henry Hub fixed price	MMBtu/d	21,167	20,350	15,350	11,375	2,500
NYMEX Henry Hub buy put	MMBtu/d	2,500	2,500	9,500	2,000	-
NYMEX Henry Hub sell call	MMBtu/d	2,500	2,500	9,500	2,000	-
NGI Chicago basis to NYMEX Henry Hub	MMBtu/d	19,600	18,450	17,950	9,375	-
NYMEX Henry Hub fixed price average	US$/MMBtu	$2.99	$2.99	$2.71	$3.35	$3.23
NYMEX Henry Hub buy put average	US$/MMBtu	$3.00	$3.00	$4.03	$3.00	-
NYMEX Henry Hub sell call average	US$/MMBtu	$4.75	$4.75	$4.93	$3.81	-
NGI Chicago basis to NYMEX Henry Hub average	US$/MMBtu	($0.145)	($0.170)	($0.064)	$0.008	-
AECO 5A fixed price	GJ/d	2,250	2,025	2,025	-	-
AECO 5A average	C$/GJ	$2.26	$2.09	$2.09	-	-
Natural gas transportation [2,3]						
Purchase AECO 5A basis (to NYMEX Henry Hub)	MMBtu/d	80,000	80,000	26,667	-	-
Sell GDD Chicago basis (to NYMEX Henry Hub)	MMBtu/d	(80,000)	(80,000)	(26,667)	-	-
AECO 5A basis (to NYMEX Henry Hub) average	US$/MMBtu	($1.25)	($1.25)	($1.25)	-	-
GDD Chicago basis (to NYMEX Henry Hub) average)	US$/MMBtu	($0.12)	($0.12)	($0.12)	-	-
Foreign exchange						
Sell USD CAD (monthly average)	US$	$5.0 MM	$5.0 MM	$1.7 MM	-	-
USD CAD buy put	US$	$5.0 MM	$5.0 MM	$1.7 MM	-	-
USD CAD sell call	US$	$5.0 MM	$5.0 MM	$1.7 MM	-	-
USD CAD fixed sell rate		1.29	1.29	1.29	-	-
USD CAD put rate		1.25	1.25	1.25	-	-
USD CAD call rate		1.30	1.30	1.30	-	-

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.

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

16. Supplemental cash flow information

Changes in non-cash working capital are as follows:

For the three months ended March 31,	2022	2021
Accounts receivable	(11,286)	(287)
Prepaid expenses and deposits	401	31
Accounts payable and accrued liabilities	11,169	1,484
Net change in non-cash working capital	284	1,228
Allocated to:		
Operating activities	(11,014)	(266)
Investing activities	11,298	116
Financing activities	-	1,378
	284	1,228

17. Subsequent events

Asset Disposition
On April 27, 2022, the Company disposed of non-core land and associated wells within the Thorhild Radway land area for proceeds of $3.9 million. Assets and liabilities have been classified as held for sale within the condensed consolidated interim balance sheet as at March 31, 2022. The assets disposed of were predominately heavy oil and accounted for approximately 17 boe/d of production in the first quarter of 2022.

Risk Management Contracts
Subsequent to March 31, 2022, the Company entered into the following risk management contracts:

Type	Unit	Q2 2022	Q3 2022	Q4 2022	2023
Natural gas [2]					
NYMEX Henry Hub buy put	MMBtu/d	-	-	-	2,375
NYMEX Henry Hub sell call	MMBtu/d	-	-	-	2,375
NYMEX Henry Hub buy put average	US$/MMBtu	-	-	-	$5.00
NYMEX Henry Hub sell call average	US$/MMBtu	-	-	-	$13.75
Foreign exchange					
USD CAD buy put	US$	$833 M	$2.5 MM	$2.5 MM	$625 M
USD CAD sell call	US$	$833 M	$2.5 MM	$2.5 MM	$625 M
USD CAD put rate		1.26	1.26	1.26	1.26
USD CAD call rate		1.30	1.30	1.30	1.30

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.

Building Lease
In April 2022, the Company entered into an eight-year lease agreement for office space resulting in an aggregate lease liability of approximately $11.2 million using a discount rate of 7.5 percent.