kiwetinohk energy

Condensed Consolidated Interim Financial Statements

As at and for the three and nine months ended
September 30, 2022

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

	Note	As at September 30, 2022	December 31, 2021
Assets			
Current			
Cash		**-**	2,343
Accounts receivable	17	**66,762**	43,179
Prepaid expenses and deposits		**4,243**	2,035
Inventory	7	**240**	-
Risk management contracts	17	**652**	-
		71,897	47,557
Exploration & evaluation assets	6	**-**	29,604
Property, plant, and equipment	4	**751,401**	534,707
Project development costs	5	**14,051**	2,469
Total assets		**837,349**	614,337
Liabilities			
Current			
Accounts payable and accrued liabilities		**77,011**	54,397
Contingent payment consideration	3, 5	**11,069**	5,000
Risk management contracts	17	**44,212**	26,115
Lease liabilities	8	**148**	594
Asset retirement obligations	12	**7,082**	6,210
		139,522	92,316
Long term compensation liability	15	**512**	-
Contingent payment consideration	5	**872**	6,551
Lease liabilities	8	**11,324**	-
Risk management contracts	17	**3,682**	2,688
Asset retirement obligations	12	**96,948**	82,480
Loans and borrowings	10	**101,198**	32,868
Total liabilities		**354,058**	216,903
Equity			
Shareholders' capital	14	**440,002**	435,381
Contributed surplus		**29,856**	24,301
Retained earnings (deficit)		**13,433**	(62,248)
Total equity		**483,291**	397,434
Total liabilities and equity		**837,349**	614,337
Commitments	13		
Subsequent events	19		

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

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

		For the three months ended September 30,		For the nine months ended September 30,	
	Note	**2022**	2021	**2022**	2021
Revenue					
Commodity sales from production	9	**122,644**	66,898	**340,441**	112,401
Commodity sales from purchases	9	**77,623**	38,349	**220,650**	56,119
Royalty expense		**(18,973)**	(8,987)	**(31,131)**	(11,760)
Revenue, net of royalties		**181,294**	96,260	**529,960**	156,760
Other income					
Share in earnings of associate		**-**	-	**-**	19,618
Unrealized gain (loss) on risk management	17	**26,266**	(35,719)	**(18,439)**	(62,504)
Realized gain (loss) on risk management	17	**(55,108)**	(16,372)	**(100,597)**	(22,759)
Other income		**827**	133	**2,957**	1,278
Total revenue and other income		**153,279**	44,302	**413,881**	92,393
Expenses					
Operating		**16,873**	11,271	**46,805**	19,812
Transportation		**10,060**	7,920	**22,628**	12,254
Commodity purchases, transportation and other		**44,810**	33,205	**181,755**	52,142
Exploration and evaluation	6	**80**	1,978	**8,330**	55,088
General and administrative		**3,535**	2,825	**13,018**	7,614
Restructuring costs		**-**	1,617	**-**	2,449
Depletion and depreciation	4	**18,415**	12,210	**48,067**	18,061
Finance costs	16	**1,666**	1,384	**5,689**	2,421
Share-based compensation	15	**2,277**	2,486	**8,275**	10,156
Acquisition costs	3, 4	**125**	1,048	**125**	6,506
Settlement agreement costs		**-**	-	**-**	10,000
Contingent payment consideration	3, 5	**59**	2,438	**3,508**	5,165
Gain on acquisition	3	**-**	-	**-**	(32,843)
Total expenses		**97,900**	78,382	**338,200**	168,825
Net income (loss) before income taxes		**55,379**	(34,080)	**75,681**	(76,432)
Income tax recovery					
Current		**-**	-	**-**	-
Deferred		**-**	-	**-**	(9,811)
Total income tax recovery		**-**	-	**-**	(9,811)
Net income (loss) and comprehensive income (loss)		**55,379**	(34,080)	**75,681**	(66,621)
Net income (loss) per share					
Basic	11	**$1.26**	$(0.99)	**$1.72**	($2.41)
Diluted	11	**$1.24**	$(0.99)	**$1.70**	($2.41)

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

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

	Note	For the three months ended September 30, 2022	2021	For the nine months ended September 30, 2022	2021
Shareholders' equity					
Shareholders' capital					
Balance, beginning of period		**439,912**	332,998	**435,381**	187,169
Issuance of share capital	14	**90**	101,732	**4,621**	247,561
Balance, end of period		**440,002**	434,730	**440,002**	434,730
Contributed surplus					
Balance, beginning of period		**28,132**	15,727	**24,301**	8,057
Share-based compensation	15	**1,765**	2,486	**7,763**	10,156
Stock options exercised	14	**(41)**	-	**(2,208)**	-
Balance, end of period		**29,856**	18,213	**29,856**	18,213
Retained earnings (deficit)					
Balance, beginning of period		**(41,946)**	(61,513)	**(62,248)**	(28,972)
Net income (loss) and comprehensive income (loss)		**55,379**	(34,080)	**75,681**	(66,621)
Elimination of non-controlling interest		**-**	(512)	**-**	(512)
Balance, end of period		**13,433**	(96,105)	**13,433**	(96,105)
Total shareholders' equity		**483,291**	356,838	**483,291**	356,838

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

Condensed Consolidated Statement of Cash Flows

(Expressed in thousands of Canadian dollars, unaudited)

	Note	For the three months ended September 30, 2022	2021	For the nine months ended September 30, 2022	2021
Cash flows related to the following activities:					
Operating					
Net income (loss)		**55,379**	(34,080)	**75,681**	(66,621)
Adjustments for non-cash items:					
Share-based compensation	15	**2,277**	2,486	**8,275**	10,156
Depletion and depreciation	4	**18,415**	12,210	**48,067**	18,061
Exploration and evaluation	6	**-**	1,960	**7,583**	51,961
Share in net earnings of associate		**-**	-	**-**	(19,618)
Shares issued for services		**-**	-	**-**	287
Unrealized loss (gain) on risk management	17	**(26,266)**	35,719	**18,439**	62,504
Accretion of asset retirement obligations	12,16	**697**	38	**1,570**	212
Interest on lease obligations	8,16	**214**	51	**230**	51
Deferred financing amortization	16	**323**	334	**969**	607
Unrealized loss (gain) on foreign exchange	16	**(1,881)**	-	**(1,871)**	-
Contingent payment consideration	3	**59**	2,438	**3,508**	5,165
Gain on acquisition	3	**-**	-	**-**	(32,843)
Deferred tax recovery		**-**	-	**-**	(9,811)
Net change in non-cash working capital	18	**42,916**	8,487	**(5,042)**	(9,800)
Asset retirement obligation expenditures	12	**(423)**	-	**(1,587)**	-
Cash flows from (used in) operating activities		**91,710**	29,643	**155,822**	10,311
Investing					
Acquisition through business combination	3	**-**	-	**-**	(282,414)
Cash acquired (used) in acquisition	3,4,5	**(59,181)**	-	**(61,681)**	95,759
Settlement of contingent consideration	3,5	**(1,500)**	-	**(6,500)**	-
Exploration and evaluation	6	**-**	(1,420)	**(63)**	(3,891)
Property, plant and equipment	4	**(58,820)**	-	**(161,258)**	-
Project development costs	5	**(1,641)**	(13,333)	**(5,700)**	(15,050)
Proceeds from disposition		**-**	-	**4,358**	-
Investment in associate	3	**-**	-	**-**	(40,113)
Net change in non-cash working capital	18	**3,369**	7,074	**4,035**	7,390
Cash flows from (used in) investing activities		**(117,773)**	(7,679)	**(226,809)**	(238,319)
Financing					
Issuance of common shares	14	**50**	-	**2,413**	145,542
Increase (decrease) in loans and borrowings	10	**26,112**	(28,024)	**67,361**	31,952
Repayment of lease obligations	8	**(111)**	(267)	**(591)**	(459)
Net change in non-cash working capital	18	**-**	-	**-**	-
Cash flows from (used in) financing activities		**26,051**	(28,291)	**69,183**	177,035
Effect of foreign exchange on cash		**12**	-	**(539)**	-
Net change in cash		**-**	(6,327)	**(2,343)**	(50,973)
Cash, beginning of period		**-**	9,830	**2,343**	54,476
Cash, end of period		**-**	3,503	**-**	3,503
Cash finance costs paid		**1,835**	961	**4,711**	1,726

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 Corp. ("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, affordable 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 1700, 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 November 9, 2022.

Changes to significant accounting policies

The same accounting policies were applied in the 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 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 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"). For further information refer to the Company's audited financial statements for the year ended December 31, 2021.

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 - $6.6 million) with $3.4 million recognized in the condensed consolidated interim statement of net loss and comprehensive loss for the nine months ended September 30, 2022 (nine months ended September 30, 2021 - $5.2 million).

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
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

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.

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

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

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:	September 30, 2022	December 31, 2021
Balance, beginning of period	**565,928**	1,618
Acquisitions	**59,181**	451,504
Additions – Oil and gas properties	**161,090**	44,251
Additions – Right of use asset	**11,226**	9
Additions – Other	**168**	364
Change in asset retirement obligation	**17,132**	68,182
Transfers from E&E (note 6)	**107,998**	-
Balance, end of period	**922,723**	565,928
Accumulated depletion and depreciation		
Balance, beginning of period	**(31,221)**	(1,018)
Depletion and depreciation	**(47,972)**	(30,203)
Transfers from E&E (note 6)	**(92,129)**	-
Balance, end of period	**(171,322)**	(31,221)
Net balance, end of period	**751,401**	534,707

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

Future development costs of $1.2 billion were included in the depletion calculation (December 31, 2021 - $1.1 billion). For the nine months ended September 30, 2022, the Company capitalized $1.3 million (twelve months ended December 31, 2021 - $1.4 million) of general and administrative expenses directly to PPE.

During the nine months ended September 30, 2022, the Company transferred $15.9 million from exploration and evaluation assets into PPE. There were no impairment indicators at September 30, 2022 or December 31, 2021.

On September 15, 2022, the Company acquired an incremental working interest in its Placid cash generating unit 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.

5. Project development costs

Cost:	**September 30, 2022**	December 31, 2021
Balance, beginning of period	**2,469**	-
Engineering related costs	**5,700**	2,469
Acquisition	**5,882**	-
Balance, end of period	**14,051**	2,469

For the nine months ended September 30, 2022, the Company capitalized $0.5 million (twelve months ended 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 150 – 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 if certain milestones are achieved. Milestones are based on successfully obtaining regulatory and interconnection capacity approvals.

The Company paid $1.5 million in August of 2022 upon resolution of the first milestone and revalued the remaining contingent consideration to $1.9 million as at September 30, 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.

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

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

Cost:	September 30, 2022	December 31, 2021
Balance, beginning of period	**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 PPE (Note 4)	**(107,998)**	-
Balance, end of period	**-**	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 PPE (Note 4)	**92,129**	-
Balance, end of period	**-**	(85,010)
Net balance, end of period	**-**	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 three and six months ended June 30, 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 during nine month period (2021 - $47.4 million).

During the nine months ended September 30, 2022, the Company transferred net book value of $15.9 million of producing properties from exploration and evaluation assets into PPE. 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.

7. Inventory

Commodity inventories consist of natural gas, condensate, and natural gas liquids products. Materials and supplies consist of inventory held to be consumed by the Company through operations and capital projects. Inventory is valued at the lower of cost and net realizable value. The cost of commodity inventories are determined on a weighted average cost basis. Costs include direct and indirect expenditures incurred in the normal course of business in bringing an item or product to its existing condition and location. Net realizable value is the estimated selling price less applicable selling expenses as derived based on benchmark index prices. If the carrying value exceeds net realizable value, a write-down is recognized. The write-down may be reversed in a subsequent period if the inventory is still on hand but the circumstances which caused the write-down no longer exist.

As at:	September 30, 2022	December 31, 2021
Commodity inventory	**(1,280)**	-
Materials and supplies	**1,521**	-
Balance, end of period	**240**	-

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

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.

As at:	September 30, 2022	December 31, 2021
Balance, beginning of period	**594**	505
Accretion of lease liabilities	**230**	71
Lease payments	**(591)**	(722)
Additions	**11,239**	-
Acquired through business combination	**-**	740
Balance, end of period	**11,472**	594
Classification of lease obligations:		
Current liability	**148**	594
Long-term liability	**11,324**	-
Balance, end of period	**11,472**	594

The Company has lease liabilities for contracts related to office space held. During the second quarter, 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

	For the three months ended September 30,		For the nine months ended September 30,	
	2022	2021	**2022**	2021
Oil & condensate	**58,532**	34,172	**180,603**	60,885
NGLs	**13,501**	8,300	**37,528**	13,171
Natural gas	**50,611**	24,426	**122,310**	38,345
Commodity sales from production	**122,644**	66,898	**340,441**	112,401
Commodity sales from purchases	**77,623**	38,349	**220,650**	56,119
Total revenue	**200,267**	105,247	**561,091**	168,520

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 income and comprehensive income and include the original commodity purchase, related transportation expense and any related marketing fees.

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

10. Loans and borrowings

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 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 which was extended 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 September 30, 2022, the Company has letters of credit outstanding of $42.2 million (December 31, 2021 - $52.3 million) of which, $6.0 million has been provided for through the EDC facility (see below), resulting in $36.2 million in letters of credit which reduce the available operating facility capacity. The Company's available borrowing capacity at September 30, 2022 is $245.8 million (December 31, 2021 - $228.0 million).

	September 30, 2022	December 31, 2021
Credit facility drawn	**102,059**	34,698
Deferred financing costs	**(861)**	(1,830)
Balance, end of period	**101,198**	32,868

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

Subsequent to September 30, 2022, the Company completed the semi-annual redetermination on the Credit Facility with no change to the borrowing base of $375 million.

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 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 September 30, 2022, the Company has $9.0 million of capacity remaining under the LC Facility.

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

11. Weighted average shares

	For the three months ended September 30,		For the nine months ended September 30,	
	2022	2021	**2022**	2021
Basic weighted average shares	**44,114**	34,322	**44,004**	27,667
Effect of dilutive instruments	**681**	-	**487**	-
Diluted weighted average shares	**44,795**	34,322	**44,491**	27,667

12. Asset retirement obligations ("ARO")

	September 30, 2022	December 31, 2021
Balance, beginning of period	**88,690**	1,597
Liabilities incurred	**1,205**	2,465
Acquisitions	**4,541**	16,593
Accretion expense	**1,570**	654
Changes in estimate	**11,429**	20,481
Revaluation of liabilities acquired [1]	**-**	47,571
Asset retirement obligation expenditures	**(1,587)**	(671)
Disposition	**(1,818)**	-
Balance, end of period	**104,030**	88,690
Current asset retirement obligations	**7,082**	6,210
Long term asset retirement obligations	**96,948**	82,480
Balance, end of period	**104,030**	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 3.0 percent (December 31, 2021 – 2.0 percent), are approximately $166.9 million (December 31, 2021 - $120.9 million). The Company revised its estimates of future obligations to be reflective of abandonment activity completed during 2022, resulting in a $11.4 million increase to the liability in the period. These cash flows have been discounted using a risk-free interest rate of 3.0 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-five years.

13. Commitments

$ million	**2022**	**2023**	**2024**	**2025**	**2026**	**Thereafter**
Gathering, processing and transport	18.2	74.2	76.8	67.6	15.3	58.8
Natural gas purchases	30.4	64.4	-	-	-	-
Lease liabilities	-	0.5	1.8	2.1	2.2	9.9
Other	-	0.4	0.4	0.4	0.4	1.1
Total	48.6	139.5	79.0	70.1	17.9	69.8

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

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 [1]	442,604	4,621
Balance, September 30, 2022	44,117,187	440,002

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

15. Share-based compensation 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 3)	**608,872**	7.50
Outstanding, December 31, 2021	**3,227,691**	9.53
Granted	**112,350**	**10.00**
Exercised	**(686,421)**	**7.66**
Forfeited	**(7,617)**	**10.00**
Outstanding, September 30, 2022	**2,646,003**	**10.03**

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.

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

	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	**(213,430)**	20.00
Outstanding, September 30, 2022	**7,708,906**	20.00

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	2.31%	0.91%
Expected life	7.0	5.0 – 7.0
Expected volatility [1]	50%	50%
Expected dividend rate	0%	0%
Expected forfeiture rate	10%	10%
Weighted average fair value	$5.33	$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.

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. The DSU incentive plan has been recognized as a long term compensation liability on the Condensed Consolidated Interim Balance Sheet. The following table summarizes the change in the number of DSUs:.

	September 30, 2022	December 31, 2021
Outstanding, beginning of period	**-**	-
Granted	**36,221**	-
Outstanding, end of period	**36,221**	-

16. Finance costs

	For the three months ended September 30,		For the nine months ended September 30,	
	2022	2021	**2022**	2021
Interest and bank charges	**2,313**	961	**4,791**	1,551
Accretion of asset retirement obligations	**697**	38	**1,570**	212
Interest on lease obligations	**214**	51	**230**	51
Deferred financing amortization	**323**	334	**969**	607
Unrealized loss (gain) on foreign exchange	**(1,881)**	-	**(1,871)**	-
Finance costs	**1,666**	1,384	**5,689**	2,421

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

17. Financial instruments and risk management

The Company's financial instruments recognized on the consolidated balance sheet includes cash, accounts receivable, deposits, inventory, accounts payable and accrued liabilities, lease liabilities, long term compensation 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, inventory, deposits, 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. Long-term compensation liability and lease liabilities have a carrying value that does not significantly differ compared to fair value.

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

	September 30, 2022	December 31, 2021
Commodity sales from production and marketing	**59,069**	37,799
Government related filings	**4,969**	2,480
Joint venture	**1,758**	2,885
Other	**966**	15
Total accounts receivable	**66,762**	43,179
Cash	**-**	2,343
Total exposure	**66,762**	45,522

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

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.

The Company's expected cash outflows relating to financial liabilities at September 30, 2022 are as follows:

$ million	2022	2023	2024	2025	2026	Thereafter
Accounts payable	77.0	-	-	-	-	-
Contingent payment consideration	-	11.9	-	-	-	-
Lease liabilities	-	0.5	1.8	2.1	2.2	9.9
Loans and borrowings[1]	-	-	102.1	-	-	-
Risk management contracts	21.0	25.0	1.2	-	-	-
Total	98.0	37.4	105.1	2.1	2.2	9.9

1 – 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 condensed consolidated interim statement of net loss and comprehensive loss to the extent the Company has outstanding financial instruments.

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 September 30, 2022:

Type		Q4 2022	2023	2024
Crude oil				
WTI fixed price	bbl/d	1,750	1,613	500
WTI buy put	bbl/d	2,883	1,375	-
WTI sell call	bbl/d	1,883	1,063	-
WTI swap average	US$/bbl	$74.58	$68.79	$70.62
WTI buy put average	US$/bbl	$62.26	$83.81	-
WTI sell call average	US$/bbl	$56.05	$100.63	-
Natural gas [2]				
NYMEX Henry Hub fixed price	MMBtu/d	15,350	11,375	2,500
NYMEX Henry Hub buy put	MMBtu/d	24,500	18,333	-
NYMEX Henry Hub sell call	MMBtu/d	19,500	6,458	-
NGI Chicago basis to NYMEX Henry Hub	MMBtu/d	21,283	10,625	-
NYMEX Henry Hub fixed price average	US$/MMBtu	$2.64	$3.35	$3.23
NYMEX Henry Hub buy put average	US$/MMBtu	$6.31	$5.05	-
NYMEX Henry Hub sell call average	US$/MMBtu	$8.78	$6.39	-
NGI Chicago basis to NYMEX Henry Hub average	US$/MMBtu	$0.01	$0.05	-
AECO 5A fixed price	GJ/d	2,025	-	-
AECO 5A average	C$/GJ	$2.09	-	-
Natural gas transportation [2,3]				
Purchase AECO 5A basis (to NYMEX Henry Hub)	MMBtu/d	43,333	20,833	-
Sell GDD Chicago basis (to NYMEX Henry Hub)	MMBtu/d	(43,333)	(20,833)	-
AECO 5A basis (to NYMEX Henry Hub) average	US$/MMBtu	($1.27)	($1.28)	-
GDD Chicago basis (to NYMEX Henry Hub) average	US$/MMBtu	$0.03	$0.10	-

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 September 30, 2022:

Type		Q4 2022	2023	2024
Foreign exchange				
Sell USD CAD (monthly average)	US$	$1.7 MM	-	-
USD CAD buy put	US$	$5.8 MM	$0.6 MM	-
USD CAD sell call	US$	$5.8 MM	$0.6 MM	-
USD CAD fixed sell rate		$1.29	-	-
USD CAD put rate		$1.26	$1.26	-
USD CAD call rate		$1.30	$1.30	-

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

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

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.

18. Supplemental cash flow information

Changes in non-cash working capital are as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2022	2021	**2022**	2021
Accounts receivable	21,895	(4,433)	(19,801)	(20,820)
Prepaid expenses	2,950	(520)	(2,208)	(4,307)
Inventory	2,467	-	(240)	-
Accounts payable and accrued liabilities	18,973	20,514	21,242	22,717
Net change in non-cash working capital	46,285	15,561	(1,007)	(2,410)
Allocated to:				
Operating activities	42,916	8,487	(5,042)	(9,800)
Investing activities	3,369	7,074	4,035	7,390
Financing activities	-	-	-	-
	46,285	15,561	(1,007)	(2,410)

19. Subsequent events

Risk Management Contracts
Subsequent to September 30, 2022, the Company entered into the following risk management contracts:

Type	**Unit**	**Q4 2022**	**2023**	**2024**
Crude oil				
WTI buy put	bbl/d	-	250	250
WTI sell call	bbl/d	-	250	250
WTI buy put average	US$/bbl	-	$70.00	$65.00
WTI sell call average	US$/bbl	-	$88.00	$77.80

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