kiwetinohk energy

Condensed Consolidated Interim Financial Statements

As at and for the three and six months ended
June 30, 2023

Condensed Consolidated Interim Balance Sheet

(Expressed in thousands of Canadian dollars, unaudited)

	Note	June 30, 2023	December 31, 2022
Assets			
Current			
Accounts receivable	14	**50,659**	79,847
Prepaid expenses and deposits	15	**19,459**	13,654
Inventory		**—**	7
Risk management contracts	14	**14,399**	2,554
		84,517	96,062
Property, plant, and equipment	3	**888,719**	790,746
Project development costs	4	**27,807**	22,118
Risk management contracts	14	**7,448**	—
Deferred tax asset		**5,853**	23,724
Total assets		**1,014,344**	932,650
Liabilities			
Current			
Accounts payable and accrued liabilities		**52,927**	77,048
Inventory		**235**	—
Share based compensation liability	12	**1,056**	743
Contingent payment consideration	4	**1,667**	11,969
Risk management contracts	14	**1,191**	13,687
Lease liabilities	5	**1,262**	505
Asset retirement obligations	9	**5,702**	6,348
		64,040	110,300
Share based compensation liability	12	**1,679**	1,310
Lease liabilities	5	**10,849**	11,162
Risk management contracts	14	**725**	6,634
Asset retirement obligations	9	**78,523**	83,426
Loans and borrowings	7	**181,546**	119,199
Total liabilities		**337,362**	332,031
Equity			
Shareholders' capital	11	**438,757**	440,916
Contributed surplus		**33,834**	30,962
Retained earnings		**204,391**	128,741
Total equity		**676,982**	600,619
Total liabilities and equity		**1,014,344**	932,650
Commitments	10		

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)

	Note	For the three months ended June 30, 2023	2022	For the six months ended June 30, 2023	2022
Revenue					
Commodity sales from production	6	**83,935**	137,931	**203,356**	217,797
Commodity sales from purchases	6	**17,475**	82,429	**37,973**	143,027
Royalty expense		**(9,841)**	(4,119)	**(22,559)**	(12,158)
Revenue, net of royalties		**91,569**	216,241	**218,770**	348,666
Other income					
Unrealized gain (loss) on risk management	14	**8,887**	(7,195)	**37,698**	(44,705)
Realized gain (loss) on risk management	14	**12,333**	(32,262)	**17,502**	(45,489)
Other income		**753**	1,088	**1,349**	2,130
Total revenue and other income		**113,542**	177,872	**275,319**	260,602
Expenses					
Operating		**16,385**	18,530	**32,927**	29,932
Transportation		**11,274**	7,144	**22,822**	12,568
Commodity purchases, transportation and other		**20,479**	76,943	**41,087**	136,945
Exploration and evaluation		**113**	4,995	**440**	8,250
General and administrative		**5,958**	4,507	**10,333**	9,483
Depletion and depreciation	3	**27,667**	16,739	**59,555**	29,652
Finance costs	13	**5,619**	1,447	**10,406**	4,023
Share-based compensation	12	**2,853**	2,713	**4,049**	5,998
Contingent payment consideration	4	**(1)**	—	**(52)**	3,449
Total expenses		**90,347**	133,018	**181,567**	240,300
Net income before income taxes		**23,195**	44,854	**93,752**	20,302
Income tax expense					
Current		**28**	—	**231**	—
Deferred		**1,466**	—	**17,871**	—
Total income tax expense		**1,494**	—	**18,102**	—
Net income and comprehensive income		**21,701**	44,854	**75,650**	20,302
Net income per share					
Basic	8	**$0.49**	$1.02	**$1.71**	$0.46
Diluted	8	**$0.49**	$1.01	**$1.70**	$0.46

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 June 30, 2023	2022	For the six months ended June 30, 2023	2022
Shareholders' equity					
Shareholders' capital					
Balance, beginning of period		**441,321**	439,197	**440,916**	435,381
Issuance of share capital	11	**74**	714	**1,277**	4,530
Repurchases of shares for cancellation	11	**(2,638)**	—	**(3,436)**	—
Balance, end of period		**438,757**	439,911	**438,757**	439,911
Contributed surplus					
Balance, beginning of period		**31,448**	25,615	**30,962**	24,301
Share-based compensation	12	**2,411**	2,713	**3,367**	5,998
Stock options exercised	11	**(25)**	(196)	**(495)**	(2,167)
Balance, end of period		**33,834**	28,132	**33,834**	28,132
Retained earnings (deficit)					
Balance, beginning of period		**182,690**	(86,800)	**128,741**	(62,248)
Net income and comprehensive income		**21,701**	44,854	**75,650**	20,302
Balance, end of period		**204,391**	(41,946)	**204,391**	(41,946)
Total shareholders' equity		**676,982**	426,097	**676,982**	426,097

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

Condensed Consolidated Interim Statement of Cash Flows

(Expressed in thousands of Canadian dollars, unaudited)

	Note	For the three months ended June 30, 2023	For the three months ended June 30, 2022	For the six months ended June 30, 2023	For the six months ended June 30, 2022
Cash flows related to the following activities:					
Operating					
Net income		**21,701**	44,854	**75,650**	20,302
Adjustments for non-cash items:					
Share-based compensation	12	**2,853**	2,713	**4,049**	5,998
Depletion and depreciation	3	**27,667**	16,739	**59,555**	29,652
Exploration and evaluation		**—**	4,836	**—**	7,583
Unrealized (gain) loss on risk management	14	**(8,887)**	7,195	**(37,698)**	44,705
Accretion of asset retirement obligations	9,13	**855**	436	**1,720**	873
Interest on lease obligations	13	**224**	5	**444**	16
Deferred financing amortization	13	**269**	323	**593**	646
Unrealized loss (gain) on foreign exchange	13	**172**	(869)	**168**	10
Contingent payment consideration	4	**(1)**	—	**(52)**	3,449
Deferred tax expense		**1,466**	—	**17,871**	—
Net change in non-cash working capital	15	**(4,701)**	(36,944)	**2,622**	(47,958)
Asset retirement obligation expenditures	9	**(258)**	(508)	**(3,402)**	(1,164)
Cash flows from operating activities		**41,360**	38,780	**121,520**	64,112
Investing					
Cash used in in acquisition	3	**(431)**	(2,500)	**(431)**	(2,500)
Settlement of contingent consideration	4,15	**(250)**	—	**(10,250)**	(5,000)
Exploration and evaluation		**—**	(8)	**—**	(63)
Property, plant and equipment	3	**(55,351)**	(48,960)	**(161,745)**	(102,438)
Project development costs	4	**(3,454)**	(3,380)	**(5,689)**	(4,059)
Proceeds from disposition		**—**	4,120	**781**	4,358
Net change in non-cash working capital	15	**(20,685)**	(10,632)	**(4,938)**	666
Cash flows used in investing activities		**(80,171)**	(61,360)	**(182,272)**	(109,036)
Financing					
Issuance of common shares	11	**49**	516	**782**	2,363
Repurchase of shares for cancellation	11	**(2,638)**	—	**(3,436)**	—
Increase in loans and borrowings	7	**42,083**	22,854	**62,292**	41,249
Repayment of lease obligations	5	**—**	(239)	**—**	(480)
Net change in non-cash working capital	15	**(660)**	—	**1,143**	—
Cash flows from financing activities		**38,834**	23,131	**60,781**	43,132
Effect of foreign exchange on cash		**(23)**	(551)	**(29)**	(551)
Decrease in cash		**—**	—	**—**	(2,343)
Cash, beginning of period		**—**	—	**—**	2,343
Cash, end of period		**—**	—	**—**	—
Cash finance costs paid		**5,083**	1,442	**8,388**	2,876

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. 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 portfolio of clean energy assets to 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

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, 2022.

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 August 1, 2023.

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, 2022 except new accounting policies effective January 1, 2023 as noted below.

New accounting policies

IAS 1 – Disclosure of Accounting Policies
Effective January 1, 2023, amendments to IAS 1 require an entity to disclose its material accounting policies, instead of its significant accounting policies, while providing guidance on how entities can identify material accounting policy information and examples of when accounting policy information is likely to be material. This will not have a material impact on the consolidated financial statements.

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

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. This will not have a material impact on the Company's financial statements.

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. This will not have a material impact on the Company's financial statements.

3. Property, plant and equipment ("PP&E") assets

	Development and production	Office furniture and equipment	Right of use assets	Total
Cost				
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	107,998	—	—	107,998
Balance at December 31, 2022	983,168	1,222	12,825	997,215
Acquisitions	431	—	—	431
Additions	161,678	67	—	161,745
Change in decommissioning asset	(3,867)	—	—	(3,867)
Disposal of assets	(781)	—	—	(781)
Balance at June 30, 2023	**1,140,629**	**1,289**	**12,825**	1,154,743
Accumulated depletion and depreciation				
Balance, December 31, 2021	(29,826)	(382)	(1,013)	(31,221)
Depletion and depreciation	(81,837)	(95)	(1,187)	(83,119)
Transfers from E&E	(92,129)	—	—	(92,129)
Balance at December 31, 2022	(203,792)	(477)	(2,200)	(206,469)
Depletion and depreciation	(58,777)	(165)	(613)	(59,555)
Balance at June 30, 2023	**(262,569)**	**(642)**	**(2,813)**	(266,024)
Net book value				
At December 31, 2022	779,376	745	10,625	790,746
At June 30, 2023	**878,060**	**647**	**10,012**	**888,719**

Future development costs of $2.2 billion were included in the depletion calculation during the six months ended June 30, 2023 (December 31, 2022 - $2.3 billion). For the six months ended June 30, 2023, the Company capitalized $1.7 million (twelve months ended December 31, 2022 - $1.9 million) of general and administrative expenses directly to PP&E.

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

On September 15, 2022, the Company completed an asset acquisition and acquired an incremental working interest in its Placid CGU for cash consideration of $59.6 million, including a final adjustment of $0.4 million recognized in April of 2023.

There were no impairment indicators at June 30, 2023.

4. Project development costs

	June 30, 2023	December 31, 2022
Cost		
Balance, beginning of period	**22,118**	2,469
Engineering related costs	**5,689**	13,767
Acquisition	**—**	5,882
Balance, end of period	**27,807**	22,118

For the six months ended June 30, 2023, the Company capitalized $0.4 million (twelve months ended December 31, 2022 - $0.9 million) in general and administrative expenses directly to project development costs.

On May 18, 2022, the Company completed an asset acquisition to purchase an early stage 170 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 initially recognized as consideration contingent on certain milestones being achieved. Milestones are based on successfully advancing regulatory requirements and interconnection capacity reviews.

During the six months ended June 30, 2023 the Company paid $0.3 million upon resolution of the second milestone and revalued the remaining contingent consideration to $1.7 million which resulted in a gain of $52 thousand. The Company reassessed the timeline of remaining payments with all remaining payments expected within 12 months. Contingent consideration was measured based on a probability weighted present value of expected cash flows on acquisition and will be re-evaluated quarterly.

5. Lease obligations

	June 30, 2023	December 31, 2022
Balance, beginning of period	**11,667**	594
Accretion of lease liabilities	**444**	446
Lease payments	**—**	(612)
Additions	**—**	11,239
Balance, end of period	**12,111**	11,667
Classification of lease obligations:		
Current liability	**1,262**	505
Long-term liability	**10,849**	11,162
Balance, end of period	**12,111**	11,667

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

The Company has lease liabilities for contracts related to office space held 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 a corresponding right-of-use asset at inception of the lease of $11.2 million.

6. Revenue

	For the three months ended June 30,		For the six months ended June 30,	
	2023	2022	**2023**	2022
Oil & condensate	**53,262**	76,627	**121,456**	122,071
NGLs	**9,923**	14,753	**24,772**	24,027
Natural gas	**20,750**	46,551	**57,128**	71,699
Commodity sales from production	**83,935**	137,931	**203,356**	217,797
Commodity sales from purchases	**17,475**	82,429	**37,973**	143,027
Total revenue	**101,410**	220,360	**241,329**	360,824

7. Loans and borrowings

Senior Secured Extendible Revolving Facility (“Credit Facility”)

On May 31, 2023 the Company completed the annual borrowing base review of the consolidated Credit Facility and confirmed no changes to the borrowing base of $375.0 million. The borrowing base is comprised 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, 2024, 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, 2025. 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 ratio of 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 percent to 1.5625 percent based on the Company’s bank EBITDA ratio.

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 June 30, 2023, the Company had letters of credit outstanding of $38.2 million (December 31, 2022 - $40.8 million) of which, $14.4 million had been provided for through the EDC facility (see below), resulting in $23.8 million in letters of credit which reduce the available operating facility capacity. At June 30, 2023, the Company has $168.4 million of capacity available under the Credit Facility (December 31, 2022 - $228.9 million).

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

	June 30, 2023	December 31, 2022
Credit facility drawn	**182,780**	119,738
Deferred financing costs	**(1,234)**	(539)
Balance, end of period	**181,546**	119,199

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

EDC Credit Facility

On June 5, 2023, Kiwetinohk amended and increased the unsecured demand revolving letter of credit facility (the "LC Facility") with Export Development Canada ("EDC") from $15.0 million to $75.0 million. Kiwetinohk's obligations under the LC Facility are supported by a performance security guarantee ("PSG") granted by EDC to the Credit Facility lender to guarantee the payment of certain amounts in respect of LCs. 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. At June 30, 2023, the Company has $60.6 million of capacity remaining under the LC Facility (December 31, 2022 - $0.6 million).

8. Weighted average shares

	For the three months ended June 30,		For the six months ended June 30,	
	2023	2022	**2023**	2022
Basic weighted average shares	**44,073**	44,061	**44,147**	43,949
Effect of dilutive instruments	**402**	442	**477**	384
Diluted weighted average shares	**44,475**	44,503	**44,625**	44,333

9. Asset retirement obligations ("ARO")

	June 30, 2023	December 31, 2022
Balance, beginning of period	**89,774**	88,690
Liabilities incurred	**780**	3,567
Acquisitions	**—**	4,541
Accretion expense	**1,720**	2,411
Changes in estimate	**(4,647)**	(2,846)
Asset retirement obligation expenditures	**(3,402)**	(4,771)
Disposition	**—**	(1,818)
Balance, end of period	**84,225**	89,774
Current asset retirement obligations	**5,702**	6,348
Long term asset retirement obligations	**78,523**	83,426
Balance, end of period	**84,225**	89,774

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 $114.8 million, or $177.1 million inflated at 1.70% (December 31, 2022 – 2.09%) and undiscounted.

These cash flows have been discounted using a risk-free interest rate of 3.09% (December 31, 2022 – 3.28%) to arrive at the present value estimate of $84.2 million. The Company expects these obligations to be settled over one to forty-three years.

10. Commitments

$ millions	2023	2024	2025	2026	2027	Thereafter
Gathering, processing and transport	37.1	77.0	67.7	15.6	17.1	42.7
Natural gas purchases	12.0	—	—	—	—	—
Lease liabilities	0.5	1.8	2.1	2.2	2.2	7.8
Other	—	0.4	0.4	0.4	0.4	0.7
Total	49.6	79.2	70.2	18.2	19.7	51.2

The Company currently has 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.

11. Shareholders' capital

The Company is authorized to issue an unlimited number of voting common shares and an unlimited number of preferred shares issuable in series.

$000s, except share amounts	Number	$
Common shares:		
Balance, December 31, 2021	43,674,583	435,381
Stock options exercised	508,598	5,630
Repurchased under NCIB	(6,471)	(95)
Balance, December 31, 2022	44,176,710	440,916
Stock options exercised [1]	82,510	1,277
Repurchased under NCIB	(278,459)	(3,436)
Balance, June 30, 2023	**43,980,761**	**438,757**

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 three and six months ended June 30, 2023, the Company purchased 278,459 Common Shares at a total cost of $3.4 million ($12.34 per share).

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

12. Share-based compensation plans

Equity-settled incentive plans

Stock Options

The following table summarizes the changes in stock options outstanding and related weighted average exercise prices of stock options outstanding for the six months ended June 30, 2023.

	Number of options	Weighted average exercise price ($)
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
Granted	40,050	14.88
Exercised	(94,262)	10.00
Forfeited	(66,755)	11.36
Outstanding, June 30, 2023	**2,595,819**	**10.42**

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

	2023	2022
Risk-free interest rate	**3.18 %**	2.71 %
Expected life (years)	**7.0**	7.0
Expected volatility [1]	**51 %**	50 %
Expected dividend rate	**— %**	— %
Expected forfeiture rate	**4 %**	5 %
Weighted average fair value	**$7.07**	$7.31

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.

Performance Warrants

The following table summarizes the changes in performance warrants outstanding and related weighted average exercise prices of performance warrants outstanding for the six months ended June 30, 2023.

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

	Number of performance warrants	Weighted average exercise price ($)
Outstanding, December 31, 2021	7,922,336	20.00
Granted	—	—
Forfeited	(367,078)	20.00
Outstanding, December 31, 2022	7,555,258	20.00
Forfeited	(716,003)	20.00
Outstanding, June 30, 2023	6,839,255	20.00

Cash-settled incentive plans

The following table summarizes the changes in the deferred share unit ("DSU"), performance share unit ("PSU"), and restricted share unit ("RSU") awards for the six months ended June 30, 2023.

(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
Granted	27,956	—	—
Forfeited	—	(20,174)	(17,341)
Outstanding, June 30, 2023	75,378	122,320	166,854

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

	DSUs	PSUs	RSUs
Balance, December 31, 2021	—	—	—
Granted	693	603	757
Balance, December 31, 2022	693	603	757
Change in accrued compensation liability	214	39	429
Balance, June 30, 2023	907	642	1,186

	June 30, 2023	December 31, 2022
Current liability	**1,056**	743
Long-term liability	**1,679**	1,310
Balance, end of period	**2,735**	2,053

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

13. Finance costs

	For the three months ended June 30,		For the six months ended June 30,	
	2023	2022	**2023**	2022
Interest and bank charges	**4,099**	1,552	**7,481**	2,478
Accretion of asset retirement obligations	**855**	436	**1,720**	873
Interest on lease obligations	**224**	5	**444**	16
Deferred financing amortization	**269**	323	**593**	646
Unrealized loss (gain) on foreign exchange	**172**	(869)	**168**	10
Finance costs	**5,619**	1,447	**10,406**	4,023

14. Financial instruments and risk management

The Company's financial instruments recognized on the condensed consolidated balance sheet includes accounts receivable, prepaid expenses and deposits, inventory, accounts payable and accrued liabilities, lease liabilities, share based compensation liability, contingent payment consideration, loans and borrowings, and risk management contracts.

Financial instruments carried at fair value include contingent payment consideration, share based compensation liability, and risk management contracts. 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 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 income and comprehensive income.

The carrying value of accounts receivable, prepaid expenses and deposits, inventory, 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.

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 accounts receivable and risk management contracts.

The Company's 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.

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

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

	June 30, 2023	December 31, 2022
Commodity sales from production and marketing	**44,675**	73,914
Government related filings	**4,028**	4,205
Joint venture	**1,823**	1,609
Other	**133**	119
Total accounts receivable	**50,659**	79,847
Cash	**—**	—
Total exposure	**50,659**	79,847

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 may adjust forward looking capital allocations to manage liquidity risk as required.

The Company's expected cash outflows relating to financial liabilities at June 30, 2023 are as follows:

$ millions	2023	2024	2025	2026	2027	Thereafter
Accounts payable	52.9	—	—	—	—	—
Contingent payment consideration	1.7	—	—	—	—	—
Cash-settled compensation liability[1]	1.1	0.4	0.3	—	—	0.9
Lease liabilities	0.5	1.8	2.1	2.2	2.2	7.8
Loans and borrowings[2]	—	—	182.8	—	—	—
Total	56.2	2.2	185.2	2.2	2.2	8.7

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 has 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 condensed consolidated interim statement of net income and comprehensive income 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.

(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 guidelines.

The Company has the following commodity risk management contracts outstanding at June 30, 2023:

Type		Q3 2023	Q4 2023	2024	2025
Crude oil [1]					
WTI fixed price	bbl/d	1,950	1,100	500	—
WTI buy put	bbl/d	2,750	3,000	2,000	250
WTI buy call	bbl/d	500	500	—	—
WTI sell call	bbl/d	2,500	2,750	1,375	250
WTI swap average	US$/bbl	$68.76	$70.41	$70.62	$—
WTI buy put average	US$/bbl	$71.11	$71.17	$67.11	$60.00
WTI buy call average	US$/bbl	$85.00	$85.00	$—	$—
WTI sell call average	US$/bbl	$86.98	$86.49	$76.69	$70.00
Natural gas [1,2]					
NYMEX Henry Hub fixed price	MMBtu/d	15,000	10,500	3,333	—
NYMEX Henry Hub buy put	MMBtu/d	34,500	32,000	20,833	9,167
NYMEX Henry Hub sell call	MMBtu/d	22,000	24,500	15,833	9,167
NYMEX Henry Hub buy call	MMBtu/d	5,000	5,000	—	—
NGI Chicago basis to NYMEX Henry Hub	MMBtu/d	12,500	—	—	—
NYMEX Henry Hub fixed price average	US$/MMBtu	$3.28	$3.24	$3.18	$—
NYMEX Henry Hub buy put average	US$/MMBtu	$4.30	$4.01	$3.36	$3.35
NYMEX Henry Hub sell call average	US$/MMBtu	$4.77	$4.59	$4.20	$4.79
NYMEX Henry Hub buy call average	US$/MMBtu	$7.00	$7.00	$—	$—
NGI Chicago basis to NYMEX Henry Hub average	US$/MMBtu	$0.01	$—	$—	$—
Natural gas transportation [1,2,3]					
Purchase AECO 5A basis (to NYMEX Henry Hub)	MMBtu/d	25,000	8,333	—	—
Sell GDD Chicago basis (to NYMEX Henry Hub)	MMBtu/d	(25,000)	(8,333)	—	—
AECO 5A basis (to NYMEX Henry Hub) average	US$/MMBtu	$(1.28)	$(1.28)	$—	$—
GDD Chicago basis (to NYMEX Henry Hub) average	US$/MMBtu	$0.10	$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.
4 – The Company has entered into select bought call transactions in order to preserve potential upside associated with swap and collar transactions over the same period.

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

The Company has the following foreign exchange risk management contracts outstanding at June 30, 2023:

Type		Q3 2023	Q4 2023	2024	2025
Foreign exchange					
Sell USD CAD (monthly average)	US$	$11.5 MM	$15.5 MM	$13.0 MM	$16.5 MM
USD CAD buy put	US$	$15.0 MM	$15.0 MM	$11.0 MM	$2.5 MM
USD CAD sell call	US$	$15.0 MM	$15.0 MM	$11.0 MM	$2.5 MM
USD CAD fixed sell rate		$1.34	$1.34	$1.34	$1.34
USD CAD put rate		$1.32	$1.32	$1.32	$1.33
USD CAD call rate		$1.36	$1.36	$1.36	$1.38

Subsequent to June 30, 2023, the Company entered into the following risk management contracts:

Type		Q3 2023	Q4 2023	2024	2025
Crude oil contracts [1,2]					
WTI buy put	bbl/d	333	1,000	292	—
WTI sell call	bbl/d	333	1,000	292	—
WTI buy put average	US$/bbl	$73.00	$69.00	$65.00	$—
WTI sell call average	US$/bbl	$81.75	$81.90	$82.05	$—
Natural gas [1,2]					
NYMEX Henry Hub buy put	MMBtu/d	1,667	5,000	—	2,500
NYMEX Henry Hub sell call	MMBtu/d	1,667	5,000	—	2,500
NYMEX Henry Hub buy put average	US$/MMBtu	$2.95	$2.95	$—	$3.25
NYMEX Henry Hub sell call average	US$/MMBtu	$3.20	$3.20	$—	$4.97

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.

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 condensed consolidated interim Balance Sheet as at June 30, 2023 and the impact of offsetting contracts.

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

	Gross financial assets (liabilities)	Gross financial assets (liabilities) offset	Net financial assets (liabilities) on Balance Sheet
As at December 31, 2022			
Current asset	15,510	12,956	2,554
Long-term asset	56	56	—
Current liability	(26,643)	(12,956)	(13,687)
Long-term liability	(6,690)	(56)	(6,634)
Net risk management position	(17,767)	—	(17,767)
As at June 30, 2023			
Current asset	18,677	4,278	14,399
Long-term asset	8,977	1,529	7,448
Current liability	(5,469)	(4,278)	(1,191)
Long-term liability	(2,254)	(1,529)	(725)
Net risk management position	19,931	—	19,931

A summary of the Company's total gain on risk management contracts for the six months ended June 30, is as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2023	2022	**2023**	2022
Realized gain (loss) on production	**8,857**	(28,483)	**10,830**	(47,149)
Realized gain (loss) on purchases	**3,824**	(3,982)	**8,103**	736
Realized loss on foreign exchange	**(348)**	203	**(1,431)**	924
Total realized gain (loss)	**12,333**	(32,262)	**17,502**	(45,489)
Unrealized gain	**8,887**	(7,195)	**37,698**	(44,705)
Total gain on risk management	**21,220**	(39,457)	**55,200**	(90,194)

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. The Company does not currently utilize risk management contracts to mitigate interest rate risk.

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

15. Supplemental cash flow information

Changes in non-cash working capital are as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2023	2022	**2023**	2022
Accounts receivable	**6,817**	(30,410)	**29,039**	(41,696)
Prepaid expenses	**(7,981)**	(5,559)	**(6,343)**	(5,158)
Inventory	**917**	(2,707)	**242**	(2,707)
Accounts payable and accrued liabilities	**(25,799)**	(8,900)	**(24,111)**	2,269
Net change in non-cash working capital	**(26,046)**	(47,576)	**(1,173)**	(47,292)
Allocated to:				
Operating activities	**(4,701)**	(36,944)	**2,622**	(47,958)
Investing activities	**(20,685)**	(10,632)	**(4,938)**	666
Financing activities	**(660)**	—	**1,143**	—
Net change in non-cash working capital	**(26,046)**	(47,576)	**(1,173)**	(47,292)

During January 2023, the Company settled a contingent payment of $10.0 million related to the Simonette Acquisition that occurred on April 28, 2021. All contingent payments related to this acquisition have been fully settled. This $10.0 million payment and the $0.3 million solar development milestone payment (see Note 4) have been recognized in the cash flow statement under investing activities.