Consolidated Financial Statements

As at and for the year ended
December 31, 2021

Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of Kiwetinohk Energy Corp. (the "Company"), which comprise the consolidated balance sheets as at December 31, 2021 and December 31, 2020, and the consolidated statement of net loss and comprehensive loss, consolidated statement of changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and December 31, 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Business Combinations – Refer to Note 4 to the financial statements

Key Audit Matter Description

During the year, the Company completed the acquisition of Simonette and Distinction Energy Corp., and recognized the assets acquired and the liabilities assumed at fair value, including property, plant and equipment. In determining the fair value of property, plant and equipment, management was required to make assumptions around oil and natural gas prices, reserves, future operating and development costs and discount rates.

While there are several estimates and assumptions that are required to determine the fair value of the property, plant and equipment, the estimates and assumptions with the highest degree of subjectivity are reserves and discount rates. This required a high degree of auditor judgment and an increased extent of audit effort, including the involvement of fair value specialists.

How the Key Matter was Addressed in the Audit

Our audit procedures related to reserves and discount rates used to determine fair value of property, plant and equipment included the following, among others:

- Evaluated the Company's reserve evaluators by examining reports and assessing their scope of work and findings and assessing the competence, capability and objectivity by evaluating their relevant professional qualifications and experience.

- Evaluated the reasonableness of reserves by testing the source financial information underlying the reserves and comparing to the reserve volumes.

- With the assistance of fair value specialists evaluated the reasonableness of the discount rates used by testing the source information underlying the determination of the discount rates and developing a range of independent estimates and comparing those to the discount rates selected by management.

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

Key Audit Matter Description

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

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

How the Key Audit Matter Was Addressed in the Audit

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

- Evaluated future oil and gas prices by independently developing a reasonable range of forecasts based on reputable third-party forecasts and market data and comparing those to the future prices selected by management.

- Evaluated the Company's reserve evaluators by examining reports and assessing their scope of work and findings and assessing the competence, capability and objectivity by evaluating their relevant professional qualifications and experience.

- Evaluated the reasonableness of reserves by testing the source financial information underlying the reserves and comparing to the reserve volumes.

- Evaluated the reasonableness of future operating and development costs by testing the source financial information underlying the estimate and evaluating whether they are consistent with evidence obtained in other areas of the audit.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

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

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

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

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

/s/ Deloitte LLP

Chartered Professional Accountants
Calgary, AB
March 23, 2022

Consolidated Balance Sheet

(Expressed in thousands of Canadian dollars)

As at December 31,	Note	2021	2020
Assets			
Current			
Cash		**2,343**	54,476
Accounts receivable	19	**43,179**	2,807
Prepaid expenses and deposits		**2,035**	409
		47,557	57,692
Exploration & evaluation assets	7	**29,604**	76,296
Property, plant, and equipment	5	**534,707**	600
Project development costs	6	**2,469**	-
Investment in associate	8	**-**	36,731
Funds held in trust		**-**	1,674
Total assets		**614,337**	172,993
Liabilities			
Current			
Accounts payable and accrued liabilities		**54,397**	2,963
Contingent payment consideration	4	**5,000**	-
Risk management contracts	19	**26,115**	-
Lease liabilities		**594**	328
Asset retirement obligations	12	**6,210**	-
		92,316	3,291
Long term liability		**-**	1,674
Contingent payment consideration	4	**6,551**	-
Lease liabilities		**-**	177
Risk management contracts	19	**2,688**	-
Asset retirement obligations	12	**82,480**	1,597
Loans and borrowings	10	**32,868**	-
Total liabilities		**216,903**	6,739
Equity			
Shareholders' capital	14	**435,381**	187,169
Contributed surplus		**24,301**	8,057
Deficit		**(62,248)**	(28,972)
Total shareholders' equity		**397,434**	166,254
Non-controlling interest	4	**-**	-
Total equity		**397,434**	166,254
Total liabilities and equity		**614,337**	172,993
Commitments	13		
Subsequent events	23		

See the accompanying notes to the consolidated financial statements.

approved on behalf of the Board of Directors:

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

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

For the year ended December 31,	Note	2021	2020
Revenue			
Commodity sales from production	9	182,668	9,758
Marketing revenue	9	114,517	-
Royalty expense		(19,526)	(604)
Revenue, net of royalties		277,659	9,154
Other income			
Share in earnings of associate	8	19,618	12,878
Unrealized loss on risk management contracts	19	(28,588)	-
Realized loss on risk management contracts	19	(36,306)	-
Other income		1,414	324
Management fees		957	387
Total revenue and other income		234,754	22,744
Expenses			
Operating		29,272	2,722
Transportation		18,193	226
Marketing		107,686	-
Exploration and evaluation	7	56,238	16,359
General and administrative		12,676	5,628
Restructuring costs	20	2,458	-
Depletion and depreciation	5	30,203	473
Finance costs	17	4,585	84
Share-based compensation	15	14,472	2,121
Acquisition costs	4	8,903	-
Settlement agreement costs	4	10,000	-
Contingent payment consideration	4	5,037	-
Gain on acquisition	4	(32,843)	-
Total expenses		266,880	27,613
Net loss before income taxes		(32,126)	(4,869)
Income tax recovery			
Current		-	-
Deferred	18	(9,811)	-
Total income tax recovery		(9,811)	-
Net loss and comprehensive loss		(22,315)	(4,869)
Net income (loss) and comprehensive income (loss) attributable to:			
Common shareholders		(41,511)	(4,869)
Non-controlling interest	4	19,196	-
Net loss and comprehensive loss		(22,315)	(4,869)
Net loss per share			
Basic and diluted	11	(0.70)	(0.36)

See the accompanying notes to the consolidated financial statements.

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

For the year ended December 31,	Note	2021	2020
Shareholders' equity			
Shareholders' capital			
Balance, beginning of year		**187,169**	128,048
Issuance of share capital	14	**248,212**	59,121
Balance, end of year		**435,381**	187,169
Contributed surplus			
Balance, beginning of year		**8,057**	5,936
Share-based compensation	15	**14,472**	2,121
Replacement stock options	4	**1,772**	-
Balance, end of year		**24,301**	8,057
Deficit			
Balance, beginning of year		**(28,972)**	(24,103)
Net loss and comprehensive loss		**(41,511)**	(4,869)
Elimination of non-controlling interest	4	**8,235**	-
Balance, end of year		**(62,248)**	(28,972)
Total shareholders' equity		**397,434**	166,254
Non-controlling interest			
Balance, beginning of year		**-**	-
Business combination	4	**90,771**	-
Net income		**19,196**	-
Acquisition of non-controlling interest	4	**(101,732)**	-
Elimination non-controlling interest	4	**(8,235)**	-
Balance, end of year		**-**	-
Total equity		**397,434**	166,254

See the accompanying notes to the consolidated financial statements.

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

For the year ended December 31,	Note	2021	2020
Cash flows related to the following activities:			
Operating			
Net loss		**(22,315)**	(4,869)
Adjustments for non-cash items:			
Share-based compensation	15	**14,472**	2,121
Depreciation	5	**30,203**	473
Exploration and evaluation	7	**52,842**	13,674
Share in net earnings of associate	8	**(19,618)**	(12,878)
Shares issued for services		**287**	117
Unrealized loss on risk management contracts	19	**28,588**	-
Accretion	12,17	**654**	17
Interest on lease obligations	17	**71**	67
Deferred financing amortization	17	**901**	-
Deferred tax recovery	18	**(9,811)**	-
Contingent payment consideration	4	**5,037**	-
Gain on acquisition	4	**(32,843)**	-
Net change in non-cash working capital	21	**(11,977)**	(382)
Asset retirement obligation expenditures	12	**(671)**	-
Cash flows from (used in) operating activities		**35,820**	(1,661)
Investing			
Acquisition through business combination	4	**(282,414)**	-
Cash acquired from business combination	4	**95,759**	-
Exploration and evaluation	7	**(3,816)**	(6,159)
Funds held in trust		**-**	(1,442)
Property, plant and equipment	5	**(44,615)**	(133)
Project development costs	6	**(2,469)**	-
Investment in associate	8	**(40,113)**	(23,853)
Net change in non-cash working capital	21	**12,278**	(277)
Cash flows used in investing activities		**(265,390)**	(31,864)
Financing			
Issuance of common shares	14	**147,490**	59,004
Share issue costs		**(1,297)**	-
Funds received for future shares		**-**	1,442
Draw on credit facility	10	**157,005**	-
Repayment of credit facility	10	**(122,308)**	-
Deferred financing	10	**(2,731)**	-
Repayment of lease obligations		**(722)**	(413)
Cash flows from financing activities		**177,437**	60,033
Net change in cash		**(52,133)**	26,508
Cash, beginning of year		**54,476**	27,968
Cash, end of year		**2,343**	54,476
Cash finance costs paid		**2,133**	2

See the accompanying notes to the consolidated financial statements.

1. Nature and description of the Company

Kiwetinohk Energy Corp. ("Kiwetinohk" or the "Company") is a corporation formed on September 22, 2021, pursuant to the Canada Business Corporations Act. The Company was formed as part of the amalgamation of Kiwetinohk Resources Corp. ("KRC") and Distinction Energy Corporation ("Distinction", previously known as Delphi Energy Corp.) as described in Note 4. Kiwetinohk's common shares commenced trading on the Toronto Stock Exchange under the symbol KEC on January 14, 2022.

Kiwetinohk's mission is to build a profitable energy transition business providing clean, reliable, dispatchable, 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

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

Statement of compliance and authorization

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company has consistently applied the same accounting policies throughout all years presented.

The financial statements were authorized for issue by the Company's Board of Directors on March 23, 2022.

Economic conditions and impact of COVID-19

In March 2020, the World Health Organization characterized the outbreak of a strain of the novel coronavirus ("COVID-19") as a pandemic. Ongoing uncertainty in commodity prices resulting from decreases in demand due to COVID-19 and the oversupply of crude oil are expected to continue to merit caution.

The duration of COVID-19 remains unknown and it is not possible to reliably estimate the impact that the length and severity of these developments will have on the financial results and condition of the Company in future periods. 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. Significant accounting policies and estimates

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

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

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

Joint operations

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

Farm-in transactions

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

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

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

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

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

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

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

All inter-company transactions are eliminated upon consolidation.

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

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

Assets held for sale
Non-current assets or disposal groups are classified as held for sale if its carrying amount will be recovered principally through a sale transaction instead of through continuing use. Assets held for sale are measured at the lower of the carrying amount and fair value less costs to sell. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Operating Segments
The Company's business activities include an Upstream Segment involved in the exploration and development of petroleum and natural gas in Western Canada and a Green Energy Segment involved in evaluating and developing low carbon solutions for the energy industry and securing access to downstream markets including power and hydrogen. Operating segments are reported separately if quantitative thresholds in accordance with IFRS 8 are met. At the current time the upstream segment is the only reportable segment.

Future Accounting Pronouncements
The following are future accounting pronouncements issued and not yet effective as at December 31, 2021. The Company intends to adopt these standards as they become effective and is evaluating the impacts, if any, on the consolidated financial statements and does not expect a significant impact.

IAS 1 – Presentation of Financial Statements
Effective January 1, 2023, amendments to the classification of liabilities as non-current include the requirement that a right to defer settlement must have substance and exist at the end of the reporting period.

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

IAS 16 – Property, plant, and equipment
Effective January 1, 2022, proceeds from selling items before property, plant and equipment is available for use is recognised in profit or loss, together with the cost of producing those items.

IAS 37 – Provisions, Contingent Liabilities and Contingent Assets
Effective January 1, 2022 IAS 37 requires the recognition of onerous contracts when the unavoidable costs of meeting obligations under a contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation of penalties arising from the failure to fulfill it. Amendments include clarification on incremental costs and the allocation of other direct costs as costs included of fulfilling a contract.

4. Business combinations

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

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

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

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

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

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

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”). The Simonette Acquisition is aligned with the Company’s strategy of building an energy transition company focused initially on building a risk-diversified, liquids-rich focused upstream portfolio of Western Canadian oil and gas resource plays.

The acquisition closed on April 28, 2021. The purchase price includes the acquisition date fair value of up to $15 million of contingent payments required if average crude oil prices exceed the reference price for WTI of USD $56.00 per barrel in 2021 and USD $62.00 per barrel in 2022 of which $7.5 million of the contingent payments may be settled in common shares of the Company at the sole option of the Company. Contingent payment consideration was estimated using a Black-Scholes pricing model which incorporates anticipated volatility, risk-free interest rates, and expected exercise price at acquisition date.

The Company has included an estimated $6.5 million of contingent payment consideration as part of the purchase price of the Simonette Acquisition and subsequently revalued the contingent payment consideration to $11.6 million as at December 31, 2021, with a $5.0 million increase in the liability recognized in the consolidated statement of net loss and comprehensive loss for the year ended December 31, 2021.

Total acquisition costs incurred for the Simonette Acquisition were $4.7 million during the year ended December 31, 2021. The Simonette Acquisition resulted in a bargain purchase gain of $32.8 million that is mainly attributed to an increase in forecast pricing at closing date. Both KRC and Distinction had issued a prepayment of $7.5 million each on February 17, 2021 towards the Simonette Acquisition.

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

The Simonette Acquisition has been accounted for as a business combination under IFRS, using the 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 consolidated financial statements based on information then available. Amendments may be made to these amounts as values subject to estimate are finalized for a period of up to one year. The preliminary purchase price allocation is:

	April 28, 2021
Purchase price consideration as per purchase and sale agreement	320,000
Contingent payment consideration	6,514
Total consideration	326,514
Preliminary closing adjustments	(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

From the date of acquisition, there was a $1.3 million decrease in preliminary closing adjustments, $0.01 million increase in working capital and a $0.3 million decrease in deferred tax liabilities resulting in an increase in bargain purchase gain of $1.1 million.

From April 28, 2021 to December 31, 2021, the Simonette assets contributed $109.8 million of revenue and $70.5 million of net income before tax to the Company. Had the business combination occurred on January 1, 2021, revenue contributed by the Simonette assets would have been $170.4 million and net income before tax would have been $111.6 million for the period January 1, 2021 to December 31, 2021. The pro-forma information disclosed is not necessarily indicative of the actual results that would have been achieved had the Simonette Acquisition closed on January 1, 2021.

Settlement agreement

Concurrently, with the closing of the Simonette Acquisition, KRC acquired and settled the obligations related to a carried interest in relation to the interests acquired in the Simonette Acquisition from 1266580 B.C. Ltd., an affiliate of Luminus Energy. The total net cost of the carried interest was $10.0 million and has been recognized as settlement expense in the consolidated statement of net loss and comprehensive loss during the year ended December 31, 2021.

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 (Note 8) of accounting from October 16, 2020 to April 28, 2021, the period for which KRC had significant influence but not control over Distinction.

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

Distinction closed a private placement of 265,331 special warrants priced at a price of $15 per special warrant (the “Special Warrants”) on February 24, 2021. Following the announcement by KRC and Distinction on February 17, 2021 of their entering into of an agreement in respect of the Simonette Acquisition, both management teams agreed there would be strategic benefits of a combined entity, including size and scale, enhanced corporate strategy, other financial operating efficiencies, and upside potential in respect of KRC’s integrated energy transition strategy. As of April 28, 2021, based on changes in the board of directors, KRC owned a controlling interest in Distinction.

All Special Warrants were deemed exercised on behalf of, and without any required action on the part of the holders on June 25, 2021. On June 14, 2021, by way of a private placement, KRC purchased 265,331 Class A common shares of Distinction at a price of $15 per Class A common share and maintained a 51.5 percent ownership following the deemed exercise of Special Warrants.

Total acquisition costs incurred for the Distinction Acquisition were $4.2 million during the year ended December 31, 2021.

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 preliminary 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

From the date of acquisition, working capital decreased by $5.5 million resulting in a $2.8 million decrease in the investment in associate immediately prior to acquisition and $2.6 million decrease in non-controlling interest.

Total cash acquired from the acquisition of Distinction was $95.8 million. From April 28, 2021 to December 31, 2021, Distinction contributed $68.7 million of revenue and $38.6 million of net income before tax to the Company. Had the business combination occurred on January 1, 2021, revenue contributed by Distinction would have been $90.3 million and net income before tax would have been $50.2 million for the period January 1, 2021 to December 31, 2021.

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

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.

Following the amalgamation, the Company's shares were consolidated on a 10 to 1 basis. The Company issued 10.2 million shares (101.7 million shares pre-consolidation) to acquire the remaining Distinction shares and 0.6 million replacement stock options which expire on April 24, 2022. All options were vested as at April 28, 2021 and measured at the market-based measure of the replacement awards which was determined to be $1.8 million. These were included in the Company's investment in Distinction immediately prior to acquisition (Note 8). On September 22, 2021, the amalgamation closed (Note 1). Under the Arrangement, Kiwetinohk succeeds the reporting issuer status of Distinction.

Non-Controlling Interest

	2021	2020
Balance, beginning of year	-	-
Business combination	90,771	-
Net income	19,196	-
Acquisition of non-controlling interest	(101,732)	-
Elimination of non-controlling interest	(8,235)	-
Balance, end of year	-	-

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

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

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

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

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

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

Accounting estimates and judgements
Reserves
There are uncertainties associated with estimating quantities of proved reserves and probable reserves and in projecting future rates of production, timing of expenditures, and internal rates of return. Reserves information contains estimates prepared by the Company's independent reserve

evaluators with respect to certain of the Company's oil, natural gas liquids ("NGL"), and natural gas properties. Information relating to oil, NGL, and natural gas properties may ultimately prove to be inaccurate.

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

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

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

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

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

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

Cost:	2021	2020
Balance, beginning of year	**1,618**	1,484
Acquisitions	**451,504**	-
Additions – Oil and gas properties	**44,251**	-
Additions – Right of use asset	**9**	1
Additions - Other	**364**	133
Change in asset retirement obligation	**68,182**	-
Balance, end of year	**565,928**	1,618
Accumulated depletion and depreciation		
Balance, beginning of year	**(1,018)**	(545)
Depletion	**(30,203)**	(473)
Balance, end of year	**(31,221)**	(1,018)
Net balance, end of year	**534,707**	600

Future development costs of $1.1 billion were included in the depletion calculation (December 31, 2020 - $nil). For the year ended December 31, 2021, the Company capitalized $1.4 million (December 31, 2020 - $nil) of general and administrative expenses directly to PPE.

There were no impairment indicators at December 31, 2021.

6. Project development costs

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

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

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

Cost:	2021	2020
Balance, beginning of year	**-**	-
Additions	**2,469**	-
Balance, end of year	**2,469**	-

For the year ended December 31, 2021, the Company capitalized $0.3 million (December 31, 2020 - $nil) in general and administrative expenses directly to project development costs.

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

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

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

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

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

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

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

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

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

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

Cost:	**2021**	2020
Balance, beginning of year	**108,464**	101,425
Land purchases	**419**	5,484
Exploration expenditures	**3,397**	676
Change in asset retirement obligation	**2,334**	879
Balance, end of year	**114,614**	108,464
Accumulated depletion		
Balance, beginning of year	**(32,168)**	(18,493)
Expense related to amortization of well costs	**(5,427)**	(13,674)
Expense related to impairment of land and well costs	**(47,415)**	-
Balance, end of year	**(85,010)**	(32,168)
Net balance, end of year	**29,604**	76,296

Following the Simonette Acquisition (Note 4) and redirection of expected future capital expenditures towards the Fox Creek area, the Company identified an impairment indicator on existing E&E assets in the West Central Alberta cash generating unit ("CGU") during the first quarter of 2021. As the Company plans to re-prioritize its development and drilling plans to higher return undeveloped land locations associated with the Simonette Acquisition, there was $24.4 million of impairment recorded relating to near-term land expiries that may not be developed at the current time. In addition the 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 during the first quarter of 2021.

During the third quarter of 2021, the Company recognized a $1.4 million impairment for well costs incurred during the second quarter of 2021 on a new drill in the Clearwater play which may not be fully recoverable based on well performance to date.

8. Investment in associate

An associate is an entity over which the Company has significant influence and the power to participate in the financial and operating policy decisions but does not have control or joint control over those policies. Investments in associates are accounted for under the equity method and initially recognised at cost (including costs directly attributable to the acquisition) with any excess of the share of the net fair value of the identifiable assets and liabilities over the cost of the investment recognised immediately in profit or loss. The investment is adjusted thereafter to recognise the Company's share of profit or loss.

The Company discontinues the use of the equity method from the date when the investment ceases to be an associate.

When the Company has transactions with an associate, profits and losses resulting from the transactions with the associate are recognised in the Company's financial statements only to the extent of unrelated interests in the associate.

Impairment
Investments in associates are assessed for indicators of impairment. When necessary, the carrying amount of the investment is tested for impairment by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount.

Accounting estimates and judgements
The determination of fair value often requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of

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

oil and natural gas assets acquired involve judgment and include estimates of reserves acquired, forecast benchmark commodity prices, and appropriate discount rates. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets could impact the amounts recorded as investments.

	2021	2020
Balance, beginning of year	**36,731**	-
Investment including transaction costs	**40,113**	23,853
Share in earnings of associates and depletion	**517**	(2,050)
Excess value above initial investment	**19,461**	14,928
Derecognition due to business combination (Note 4)	**(96,822)**	-
Balance, end of year	**-**	36,731

On April 28, 2021, KRC obtained control in its investment in associate (Note 4) and derecognized the investment under the equity method.

9. Revenue

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

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

Marketing revenue
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 marketing revenue. Marketing expenses include the original commodity purchase, related transportation expense and any related marketing fees.

	2021	2020
Condensate	**81,978**	708
Oil	**14,389**	7,743
NGLs	**22,659**	166
Natural gas	**63,642**	1,141
Commodity sales from production	**182,668**	9,758
Marketing revenue	**114,517**	-
Total revenue	**297,185**	9,758

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

10. Loans and borrowings

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

On December 10, 2021 the Company amended and restated its credit agreement. The Company entered into a consolidated $315.0 million Senior Secured Extendible Revolving Facility ("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 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 ratio ("bank EBITDA"): 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 debt to EBITDA ratio.

The New Credit Facility is secured by a $1.0 billion demand floating charge debenture and a general security agreement over all assets of the Company. At December 31, 2021, the Company has letters of credit outstanding of $52.3 million which reduce the available operating facility capacity. The Company's available borrowing capacity at December 31, 2021 is $228.0 million.

	2021	2020
Credit facility drawn	**34,698**	-
Deferred financing costs	**(1,830)**	-
Balance, end of year	**32,868**	-

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

11. Weighted average shares

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

	2021	2020
Basic weighted average shares	**31,689**	13,540
Effect of dilutive instruments	**-**	-
Diluted weighted average shares	**31,689**	13,540

All options, performance warrants, and capital warrants were anti-dilutive for the years ended December 31, 2021 and December 31, 2020.

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

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 14.

12. Asset retirement obligations ("ARO")

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

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

	2021	2020
Balance, beginning of year	**1,597**	701
Liabilities incurred	**2,465**	868
Acquisitions	**16,593**	-
Accretion expense	**654**	15
Changes in estimate	**20,481**	-
Revaluation of liabilities acquired [1]	**47,571**	13
Asset retirement obligation expenditures	**(671)**	-
Balance, end of year	**88,690**	1,597
Current asset retirement obligations	**6,210**	-
Long term asset retirement obligations	**82,480**	1,597
Balance, end of year	**88,690**	1,597

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

The Company's asset retirement obligations result from its ownership in oil and natural gas assets, including well sites, facilities and gathering systems. The total estimated undiscounted cash flows required to settle the obligations, inflated at 2.0 percent (December 31, 2020 – 1.5 percent), are approximately $88.7 million (December 31, 2020 - $1.6 million). These cash flows have been discounted using a risk-free interest rate of 2.0 percent (December 31, 2020 – 1.3 percent) based on Government of Canada long-term benchmark bonds. The Company expects these obligations to be settled over one to thirty-six years.

13. Commitments

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

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

$ million	2022	2023	2024	2025	2026	Thereafter
Gathering, processing and transport	55.8	63.3	65.3	57.1	12.4	253.9
Natural gas purchases	81.7	-	-	-	-	-
Office, equipment and software	0.3	-	-	-	-	-
Land fund	0.4	-	-	-	-	-
Other	0.4	0.4	0.4	0.4	0.4	1.1
Total	138.6	63.7	65.7	57.5	12.8	255.0

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 December 2022.

14. Shareholders' capital

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

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

(000s) except share amounts

Common shares:	Number	$
Balance, December 31, 2019	12,811,636	128,048
Equity line of credit cash calls	5,900,386	59,004
Shares issued for services	11,696	117
Balance, December 31, 2020	18,723,718	187,169
Equity line of credit cash calls	11,350,578	113,506
Private placement (net of issue costs)	3,398,341	32,687
Shares issued for services	28,746	287
Shares issued on Distinction Acquisition (Note 4)	10,173,200	101,732
Balance, December 31, 2021	43,674,583	435,381

On August 20, 2018, the Company entered into various subscription agreements with management, directors, and a private equity investor. The Company had an equity line of credit financing agreement in place with funds managed by ARC Financial Corp. ("ARC") for an option to invest up to $250.0 million at $10 per common share which in 2021 was increased to $275.0 million in total aggregate equity proceeds.

During 2021 the Company has fully drawn on its $275.0 equity line of credit and raised $32.0 million of net proceeds from a private placement.

On September 22, 2021 the Company acquired the remaining common shares of Distinction that it did not already own by issuing 10.2 million (post consolidation) common shares (Note 4). As part of the Arrangement the Common Shares of Kiwetinohk were consolidated on a ten to one basis and this adjustment has been retroactively reflected in prior year comparatives.

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

15. Share-based compensation plans

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

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

As part of the 10:1 share consolidation, as described in Note 14, the number of shares on exercise of options, performance warrants and capital warrants has been divided by 10, and the corresponding exercise price was multiplied by 10. Prior year comparatives have been retroactively adjusted to reflect the 10:1 share consolidation.

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, 2019	**1,410,958**	10.0
Granted	**106,778**	10.0
Forfeited	**(229,446)**	10.0
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 4)	**608,872**	7.50
Outstanding, December 31, 2021	**3,227,691**	9.53

	Options outstanding		Options Exercisable	
Exercise Price	**Number of options**	**Weighted average contractual life remaining (years)**	**Number of options**	**Weighted average exercise price $**
7.50	608,872	0.3	608,872	7.50
10.00	2,618,819	5.1	1,198,169	10.00
9.53	**3,227,691**	**4.2**	**1,807,041**	**9.16**

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

Performance Warrants

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

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

	Number of performance warrants	Weighted average exercise price ($)
Outstanding, December 31, 2019	**2,821,917**	20.0
Granted	**213,556**	20.0
Forfeited	**(456,979)**	20.0
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

	Warrants Outstanding		Warrants Exercisable	
Range of Exercise Prices $	**Number of Warrants**	**Weighted Average Contractual Life Remaining (years)**	**Number of Warrants**	**Weighted Average Exercise Price $**
15.00	1,584,472	4.6	480,235	15.00
17.50	1,584,471	4.6	480,236	17.50
20.00	1,584,466	4.6	480,236	20.00
22.50	1,584,464	4.6	480,236	22.50
25.00	1,584,463	4.6	480,241	25.00
20.00	**7,922,336**	**4.6**	**2,401,184**	**20.00**

Capital Warrants

The Company had a capital warrant plan for directors, officers, employees and consultants of the Company and certain other approved parties. The capital warrants were terminated on completion of the Distinction Arrangement (Note 4). Each capital warrant would have entitled the holder thereof to acquire one common share at an exercise price of $1 plus two thirds of the excess of a liquidity, or IPO price per common share less $1.50.

	Number of capital warrants
Outstanding, December 31, 2019 and December 31, 2020	2,007,330
Terminated on completion of Distinction Acquisition (Note 4)	(2,007,330)
Outstanding, December 31, 2021	-

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

Share-based compensation
A summary of the inputs used to value stock options and warrants is as follows:

	2021	2020
Risk-free interest rate	0.91%	2.0%
Expected life	5.0 – 7.0	5.0 - 7.0
Expected volatility [1]	50%	50%
Expected dividend rate	0%	0%
Expected forfeiture rate	10%	15%
Weighted average fair value	$3.21	$5.02

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.

16. Capital management

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

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

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

	2021	2020
Current assets	**47,557**	57,692
Current liabilities	**(92,316)**	(3,291)
Working capital (deficit) surplus Risk	**(44,759)**	54,401
management contracts liabilities	**26,115**	-
Adjusted working capital (deficit) surplus	**(18,644)**	54,401

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

	2021	2020
Loans and borrowings	**32,868**	-
Adjusted working capital deficit (surplus)	**18,644**	(54,401)
Net debt (surplus)	**51,512**	(54,401)

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

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

	2021	2020
Cash flow from (used in) operating activities	**35,820**	(1,661)
Net change in non-cash operating working capital from operating activities	**11,977**	382
Asset retirement obligation expenditures	**671**	-
Restructuring costs	**2,458**	-
Acquisition costs	**8,903**	-
Settlement agreement costs	**10,000**	-
Adjusted funds flow from (used in) operations	**69,829**	(1,279)

17. Finance costs

	2021	2020
Accretion	**654**	17
Interest and bank charges	**2,959**	-
Interest on lease obligations	**71**	67
Deferred financing amortization	**901**	-
Finance costs	**4,585**	84

18. Income taxes

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

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

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

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

Income tax recovery

The Company's income tax recovery for the year ended December 31, 2021 is comprised of:

	2021	2020
Current	**-**	-
Deferred tax recovery	**(9,811)**	-
Income tax recovery	**(9,811)**	84

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

	2021	2020
Net loss before income taxes	**(32,126)**	(4,869)
Combined federal and provincial tax rate	**23.0%**	23.0%
Expected income tax expense/(recovery)	**(7,389)**	(1,120)
Effect on income tax of:		
Share-based compensation	**3,329**	488
Change in unrecognized deferred income tax asset [1]	**2,070**	2,192
Impact of amalgamation on investment in associate	**(2,989)**	-
Share of earnings in associate	**(4,553)**	(1,481)
Deferred financing charges and other	**(279)**	(79)
Income tax recovery	**(9,811)**	-

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

Deferred taxes

	2021	2020
Deferred income tax assets:		
Asset retirement obligations	**20,399**	367
Share and debt issue costs	**690**	10
Non-capital losses	**54,113**	11,782
Risk management contracts	**6,625**	-
Other	**88**	-
Deferred income tax liabilities:		
E&E and PP&E	**(18,164)**	(4,367)
Investment in associate	**-**	(1,481)
Net deferred income tax asset	**63,751**	6,311
Deferred income tax asset not recognized	**(63,751)**	(6,311)
Deferred income tax asset	**-**	-

Deferred income tax assets have not been recognized as the Company has a history of accounting and income tax losses which creates uncertainty as to the probability of taxable profits in the future.

At December 31, 2021, the Company has total tax pools of $724 million (December 2020 - $95 million), including non-capital loss carry-forwards of $235 million (December 2020 - $51 million) available to reduce future years' income for tax purposes.

19. Financial instruments and risk management

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

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

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

All financial liabilities are measured at amortized cost except for those measured at FVTPL including contingent payment consideration and risk management contracts.

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

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

Financial instruments carried at fair value include cash, contingent payment consideration, 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 consolidated balance sheet at each reporting period with the change in the fair value of the financial contracts being classified as unrealized gains and losses in the consolidated statement of net income (loss) and comprehensive income (loss).

The carrying value of accounts receivable, deposits, 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.*

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

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

The 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.

The majority of credit risk exposure on accounts receivable at December 31, 2021, relates to accrued sales revenue for December 2021 production volumes and marketing of purchased gas. Purchasers of the Company's commodity sales typically remit amounts to the Company by the 25th day of the month following the month of production. At December 31, 2021, $37.8 million of receivables from commodity purchasers who are considered investment grade accounted for approximately 88% percent of the total accounts receivable balance and was collected subsequent to year end. At December 31, 2021 $2.9 million in accounts receivable are greater than 90 days past due.

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

	2021	2020
Commodity sales from production and marketing	**37,799**	772
Crown rebate	**3**	517
Government related filings	**2,480**	124
Joint venture	**2,885**	7
Other	**12**	1,387
Total accounts receivable	**43,179**	2,807
Cash	**2,343**	54,476
Total exposure	**45,522**	57,283

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

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

The Company's expected cash outflows relating to financial liabilities at December 31, 2021 are as follows:

$ million	2022	2023	2024	2025	2026	Thereafter
Accounts payable	54.4	-	-	-	-	-
Contingent payment consideration	5.0	6.6	-	-	-	-
Lease liabilities	0.6	-	-	-	-	-
Loans and borrowings[1]	1.8	36.0	-	-	-	-
Risk management contracts	26.1	2.7	-	-	-	-
Total	87.9	45.3	-	-	-	-

1 – includes debt principal repayments and interest payments.

Market risk

Market risk is the risk that fluctuations in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Company's consolidated statement of net 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. Based on the average outstanding debt for the year, a 1.0% change in the banker's prime rate would result in the following increase or decrease in finance costs for the year ended December 31, 2021:

	Increase ($)	Decrease ($)
1% change in prime rate impact on finance costs	**441**	(441)

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 risk management contracts outstanding at December 31, 2021:

Type		Q1 2022	Q2 2022	Q3 2022	Q4 2022	2023
Crude oil						
WTI fixed price	bbl/d	750	750	750	750	900
WTI buy put	bbl/d	2,367	2,167	2,033	1,883	-
WTI sell call	bbl/d	2,367	2,167	2,033	1,883	-
WTI swap average	C$/bbl	$69.950	$69.950	$69.950	$69.950	$82.600
WTI buy put average	C$/bbl	$65.000	$65.000	$65.000	$65.000	-
WTI sell call average	C$/bbl	$76.715	$76.692	$76.668	$76.650	-
Natural gas [2]						
NYMEX Henry Hub fixed price	MMBtu/d	18,900	21,167	20,350	15,350	11,375
NYMEX Henry Hub buy put	MMBtu/d	2,500	2,500	2,500	2,500	2,000
NYMEX Henry Hub sell call	MMBtu/d	2,500	2,500	2,500	2,500	2,000
NGI Chicago basis to NYMEX Henry Hub	MMBtu/d	17,400	19,600	18,450	17,950	9,375
NYMEX Henry Hub fixed price average	US$/MMBtu	$2.806	$2.986	$2.979	$2.697	$3.353
NYMEX Henry Hub buy put average	US$/MMBtu	$3.000	$3.000	$3.000	$3.000	$3.000
NYMEX Henry Hub sell call average	US$/MMBtu	$4.750	$4.750	$4.750	$4.750	$3.805
NGI Chicago basis to NYMEX Henry Hub average	US$/MMBtu	$0.194	($0.145)	($0.170)	($0.064)	$0.007
AECO 5A fixed price	GJ/d	2,250	2,250	2,025	2,025	-
AECO 5A average	C$/GJ	$2.262	$2.262	$2.092	$2.092	-
Natural gas transportation [2,3]						
Purchase AECO 5A basis (to NYMEX Henry Hub)	MMBtu/d	80,000	30,000	30,000	10,000	-
Sell GDD Chicago basis (to NYMEX Henry Hub)	MMBtu/d	(80,000)	(30,000)	(30,000)	(10,000)	-
AECO 5A basis (to NYMEX Henry Hub) average	US$/MMBtu	($0.971)	($1.335)	($1.335)	($1.335)	-
GDD Chicago basis (to NYMEX Henry Hub) average)	US$/MMBtu	$0.200	$0.052	$0.052	$0.052	-
Foreign exchange						
Sell USD CAD (monthly average)	US$	$10.0 MM	$5.0 MM	$5.0 MM	$1.7 MM	-
USD CAD rate		1.2902	1.2901	1.2901	1.2901	-

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)

A summary of the Company's loss on risk management contracts for the year ended December 31, 2021 is as follows:

	2021	2020
Unrealized loss on risk management contracts	28,588	-
Realized loss on risk management contracts	36,306	-
Loss on risk management contracts	64,894	-

The Company has the following risk management contracts in the consolidated balance sheet at December 31, 2021:

	2021	2020
Risk management assets	183,722	-
Risk management liabilities	(212,525)	-
	(28,803)	-
Short term risk management contracts	(26,115)	-
Long term risk management contracts	(2,688)	-
	(28,803)	-

The following table demonstrates the sensitivity of the Company's risk management contracts in place at December 31, 2021:

	Sensitivity	Increase in net loss	Decrease in net loss
Natural gas [1]	±10%	1,018	(1,018)
Crude oil [2]	±10%	12,708	(12,708)
Foreign exchange [3]	±1%	17	(17)

1 – Natural gas sensitivities are based on a 10% increase or decrease of natural gas pricing and basis differentials for contracts entered into as at December 31, 2021.

2 – Crude oil sensitivities are based on a 10% increase or decrease of WTI for contracts entered into as at December 31, 2021.

3 – Foreign exchange sensitivities are based off a $0.01 increase or decrease in the USD CAD exchange rate for contracts entered into as at December 31, 2021.

20. Restructuring costs

Restructuring costs are comprised of legal fees, monitor fees, and crown royalties associated with the re-emergent of Distinction after bankruptcy, and run off insurance for Director and Officers. During the year ended December 31, 2021 the Company incurred $2.5 million in restructuring costs.

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

21. Supplemental cash flow information

Changes in non-cash working capital are as follows:

	2021	2020
Accounts receivable	**(36,428)**	(427)
Prepaid expenses and deposits	**(2,216)**	(63)
Accounts payable and accrued liabilities	**38,945**	(169)
Net change in non-cash working capital	**300**	(659)
Allocated to:		
Operating activities	**(11,977)**	(382)
Investing activities	**12,278**	(277)
	300	(659)

22. Related party transactions

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

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

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

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

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

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

	2021	2020
Salaries, bonus, benefits, and other personnel costs	**2,127**	977
Share-based compensation	**1,717**	693
Total	**3,844**	1,669

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

During the year ended December 31, 2021 the Company incurred the following transactions:

	2021	2020
Legal services from a law firm where a director is a partner	**2,098**	522
Upstream evaluation fees where a director is the CEO	**339**	383
Upstream oilfield services where a VP is the President [1]	**22**	110
Total	**2,459**	1,015

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

All related party transactions are incurred in the normal course of operations and recorded at the exchange amount which approximates the fair value of the services provided. As at December 31, 2021, there is $0.1 million (December 31, 2020 - $0.3 million) outstanding in amounts payable to related parties included in accounts payable and accrued liabilities.

Upon closing of the Arrangement with Distinction, the Company has a net receivable balance of $0.6 million outstanding from previous Directors and employees of Distinction for withholding taxes incurred upon the surrender and exchange of all remaining Distinction restricted share units at the time of closing. The withholding tax receivable balance of $0.6 million was repaid subsequently to December 31, 2021.

23. Subsequent events

Contingent payment consideration
In January 2022, the Company paid $5 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 (Note 4).

EDC Credit Facilities
Subsequent to year end, Kiwetinohk entered into a new $15 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.

Commitments
In March 2022, the Company entered into additional commitments for the purchase of natural gas supply through November 2023 for an estimated total of $3.5 million during 2022 and $12.6 million in 2023.

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

Risk Management Contracts

Subsequent to December 31, 2021, the Company entered into the following risk management contracts:

Type	Unit	2022	2023	2024
Crude oil contracts				
WTI fixed price	bbl/d	-	275	500
WTI swap average	CDN$/bbl	-	$70.410	$70.620
Natural gas [2]				
NYMEX Henry Hub fixed price	MMBtu/d	-	-	2,500
NYMEX Henry Hub buy put	MMBtu/d	3,000	-	-
NYMEX Henry Hub sell call	MMBtu/d	3,000	-	-
NYMEX Henry Hub fixed price average	US$/MMBtu	-	-	$3.233
NYMEX Henry Hub buy put average	US$/MMBtu	$4.45	-	-
NYMEX Henry Hub sell call average	US$/MMBtu	$5.125	-	-
Natural gas transportation [2,3]				
Purchase AECO 5A basis (to NYMEX Henry Hub)	MMBtu/d	29,167	-	-
Sell GDD Chicago basis (to NYMEX Henry Hub)	MMBtu/d	(29,167)	-	-
AECO 5A basis (to NYMEX Henry Hub) average	US$/MMBtu	($1.199)	-	-
GDD Chicago basis (to NYMEX Henry Hub) average)	US$/MMBtu	($0.226)	-	-
Foreign exchange				
Buy USD CAD put (monthly average)	US$	$2.9 MM	-	-
Sell USD CAD call (monthly average)	US$	$2.9 MM	-	-
Buy USD/CAD put rate		1.2527	-	-
Sell USD/CAD call rate		1.3000	-	-

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.