Yangarra Resources Ltd.
Consolidated Financial Statements
December 31, 2022 and 2021

To the Shareholders of Yangarra Resources Ltd.:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors exercises its responsibilities for financial controls through an Audit Committee. The Audit Committee is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Company's external auditors.

MNP LLP, an independent firm of Chartered Professional Accountants, is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

March 1, 2023

(signed) "James G. Evaskevich"
James G. Evaskevich
Chief Executive Officer

(signed) “James A. Glessing”
James A. Glessing
Chief Financial Officer

Independent Auditor's Report

To the Shareholders of Yangarra Resources Ltd.:

Opinion

We have audited the consolidated financial statements of Yangarra Resources Ltd. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2022 and December 31, 2021, and the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated 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 of the current period. 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.

The impact of crude oil, natural gas, and natural gas liquid reserves on oil and gas producing (O&G) assets

Key Audit Matter Description

Refer to note 2 - Summary of significant accounting policies, and note 3 - Property and equipment in the consolidated financial statements.

The Company had $701 million of O&G assets as at December 31, 2022. Depletion and Depreciation (D&D) expense was $37 million for the year then ended. The Company depletes O&G assets on a unit-of-production basis over the life of their proved plus probable (2P) reserves. Key assumptions developed by management to determine 2P reserves include forward price estimates, expected future rates of production, the amount and timing of future development expenditures, and engineering data. The Company's reserves are evaluated by an independent qualified reserve evaluator (management's expert).

We identified the impact of crude oil, natural gas, and natural gas liquid reserves on O&G assets as a key audit matter due to:

- The significant estimates and judgments used by management, including the use of management's expert, to estimate the 2P reserves,
- The significant auditor judgment required, and,
- The effort in performing procedures related to the key assumptions used.

Audit Response

We responded to this matter by performing procedures in relation to the impact of crude oil, natural gas, and natural gas liquid reserves on O&G assets. Our audit work in relation to this included, but was not restricted to, the following:

- Using the work of management’s experts to perform the procedures required to evaluate the reasonableness of the 2P reserves used to determine the depletion charges of the O&G assets:
  - (i) To obtain comfort on management's expert, we evaluated the competence, capabilities, and objectivity of management’s expert; and,
  - (ii) Procedures included gaining an understanding of the work performed by management’s expert, testing the data used by management’s expert, and evaluating their findings.

- Evaluating the key assumptions used by management in determining 2P reserves and the reasonableness thereof. Procedures included:
  - (i) Testing of forward price estimates by comparing to third party industry forecasts;
  - (ii) Using the past and current performance of the Company to evaluate expected future rates of production and the timing and amount of future development expenditures; and,
  - (iii) Assessing whether the estimates used were consistent with audit evidence gathered in other areas of our audit.

- Obtaining an understanding of the Company's processes and controls over 2P reserves and D&D.

- Recalculating quarterly D&D expense.

Other Information

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

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits 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. We have nothing to report in this regard.

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

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

In preparing the consolidated 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 Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 generally accepted auditing standards 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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 Brad Frampton.

Calgary, Alberta

MNP LLP

March 1, 2023

Chartered Professional Accountants

MNP

Yangarra Resources Ltd.
Consolidated Statements of Financial Position
(in thousands of Canadian dollars)

		December 31 2022		December 31 2021
Assets				
Current				
Accounts receivable *(note 14a)*	$	**31,950**	$	27,536
Prepaid expenses and inventory		**8,809**		5,022
Commodity contracts *(note 14d)*		**24**		–
Interest rate contracts *(note 14d)*		**–**		191
Total current assets		**40,783**		32,749
Non-current				
Property and equipment *(note 3)*		**701,045**		627,948
Exploration and evaluation assets *(note 4)*		**26,230**		22,342
Interest rate contracts *(note 14d)*		**–**		430
Total assets	$	**768,058**	$	683,469
Liabilities				
Current				
Accounts payable and accrued liabilities	$	**35,718**	$	33,930
Bank debt *(note 5)*		**139,405**		–
Commodity contracts *(note 14d)*		**–**		11
Interest rate contracts *(note 14d)*		**–**		79
Current portion of lease obligations *(note 6)*		**2,092**		2,353
Current portion of decommissioning liability *(note 7)*		**488**		105
Total current liabilities		**177,703**		36,478
Non-current				
Bank debt *(note 5)*		**–**		195,422
Lease obligations *(note 6)*		**1,003**		2,372
Other liabilities		**1,018**		589
Interest rate contracts *(note 14d)*		**–**		178
Decommissioning liability *(note 7)*		**13,593**		13,691
Deferred tax liability *(note 12)*		**101,167**		69,780
Total liabilities		**294,484**		318,510
Shareholders' equity				
Share capital *(note 8)*		**179,688**		178,110
Contributed surplus		**28,821**		28,142
Retained earnings		**265,065**		158,707
Total shareholders' equity		**473,574**		364,959
Total liabilities and shareholders' equity	$	**768,058**	$	683,469

Contingency (note 18)

Approved on behalf of the Board of Directors

"James G. Evaskevich" (signed)
James G. Evaskevich

"Gordon A. Bowerman" (signed)
Gordon A. Bowerman

The accompanying notes are an integral part of these consolidated financial statements

(in thousands of Canadian dollars)

		2022		2021
Revenue				
Petroleum and natural gas sales *(note 17)*	$	**243,056**	$	140,289
Royalties		**(19,170)**		(8,722)
		223,886		131,567
Commodity price risk contracts *(note 14c iii)*				
Loss on commodity contract settlement		**(2,920)**		(4,529)
Unrealized change in fair value of commodity contracts		**36**		(139)
		221,002		126,899
Expenses				
Production		**24,434**		18,254
Transportation		**4,874**		3,599
General and administrative		**4,072**		2,935
Finance *(note 16)*		**11,591**		8,389
Share-based compensation *(note 9)*		**627**		1,322
Depletion and depreciation *(note 3)*		**37,659**		27,187
		83,257		61,686
Income before tax		**137,745**		65,213
Deferred tax expense *(note 12)*		**31,387**		15,199
Net income and total comprehensive income	$	**106,358**	$	50,014
Earnings per share *(note 10)*				
Basic	$	**1.22**	$	0.58
Diluted	$	**1.16**	$	0.56

(in thousands of Canadian dollars)

		2022		2021
Share capital				
Balance, beginning of year	$	**178,110**	$	176,349
Exercise of stock options *(note 8)*		**1,077**		1,131
Contributed surplus transferred on exercise of stock options *(note 8)*		**501**		630
Balance, end of year		**179,688**		178,110
Contributed surplus				
Balance, beginning of year		**28,142**		27,218
Share-based compensation *(note 9)*		**1,180**		1,554
Exercise of stock options *(note 8)*		**(501)**		(630)
Balance, end of year		**28,821**		28,142
Retained earnings				
Balance, beginning of year		**158,707**		108,693
Net income		**106,358**		50,014
Balance, end of year		**265,065**		158,707
Total shareholders' equity	$	**473,574**	$	364,959

(in thousands of Canadian dollars)

	2022	2021
Operating		
Net income for the year	$ **106,358**	$ 50,014
Add back non-cash items:		
Unrealized change in fair value of commodity contracts	**(36)**	139
Finance expense *(note 16)*	**11,592**	8,389
Share-based compensation *(note 9)*	**627**	1,322
Depletion and depreciation *(note 3)*	**37,659**	27,187
Deferred tax expense *(note 12)*	**31,387**	15,199
Interest and finance costs paid *(note 16)*	**(10,393)**	(11,329)
Decommissioning costs incurred	**(291)**	(881)
Change in non-cash working capital *(note 11)*	**(7,239)**	1,226
Net cash flow from operating activities	**169,664**	91,266
Financing		
Exercise of stock options *(note 8)*	**1,077**	1,131
Bank debt repayment *(note 5)*	**(56,476)**	(5,329)
Lease obligation repayment *(note 6)*	**(2,331)**	(2,003)
Lease interest paid *(note 6)*	**(340)**	(119)
Realized interest rate contract settlement *(note 16)*	**393**	–
Other long-term liabilities advance	**429**	550
Net cash flow used in financing activities	**(57,248)**	(5,770)
Investing		
Additions to property and equipment *(note 3)*	**(109,354)**	(88,153)
Additions to exploration and evaluation assets *(note 4)*	**(3,888)**	(387)
Change in non-cash working capital *(note 11)*	**826**	3,044
Net cash flow used in investing activities	**(112,416)**	(85,496)
Change in cash	–	–
Cash, beginning of the year	–	–
Cash, end of the year	$ –	$ –

The accompanying notes are an integral part of these consolidated financial statements

1. Basis of preparation and statement of compliance and authorization

Yangarra Resources Ltd. ("Yangarra" or the "Company") is a publicly-traded company involved in the production, exploration and development of resource properties in Western Canada. The address of the registered office is 1530, 715 – 5 Avenue SW, Calgary Alberta, T2P 2X6. These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Yangarra Resources Corp. and Yangarra Holding Corp., after the elimination of intercompany transactions and balances.

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiary. The consolidated financial statements were authorized for issuance by the Company's Board of Directors on March 1, 2023.

Statement of compliance and authorization:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements have been prepared on the going concern basis, under the historical cost convention except for certain financial instruments and stock options, which are measured at fair value, as explained in the accounting policies.

2. Summary of significant accounting policies

a) Financial instruments

Classification and measurement of financial instruments

The Company measures its financial assets and financial liabilities at fair value on initial recognition, which is typically the transaction price unless a financial instrument contains a significant financing component. Subsequent measurement is dependent on the financial instrument's classification which, in the case of financial assets, is determined by the context of the Company's business model and the contractual cash flow characteristics of the financial asset. Financial assets are classified into two categories: (1) measured at amortized cost and (2) fair value through profit and loss ("FVTPL"). Financial liabilities are subsequently measured at amortized cost, other than financial liabilities that are measured at FVTPL or designated as FVTPL where any change in fair value resulting from an entity's own credit risk is recorded as other comprehensive income ("OCI"). The Company does not employ hedge accounting for its risk management contracts currently in place.

Amortized cost

The Company classifies its accounts receivable, accounts payable and accrued liabilities, other long-term liabilities and bank debt as measured at amortized cost. The contractual cash flows received from the financial assets are solely payments of principal and interest and are held within a business model whose objective is to collect the contractual cash flows. These financial assets and financial liabilities are subsequently measured at amortized cost using the effective interest method net of transaction costs.

FVTPL

The Company classifies its risk management contracts as measured at FVTPL. Financial assets and liabilities classified as FVTPL are subsequently measured at fair value with changes in fair value charged immediately to the consolidated statements of income and comprehensive income. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed when incurred.

2. Summary of significant accounting policies (continued)

a) Financial instruments (continued)

Impairment of financial assets

Impairment of financial assets is determined by measuring the assets' expected credit loss ("ECL"). Accounts receivable are due within one year or less; therefore, these financial assets are not considered to have a significant financing component and a lifetime ECL is measured at the date of initial recognition of the accounts receivable. ECL allowances have not been recognized for cash due to the virtual certainty associated with their collection.

The ECL pertaining to accounts receivable is assessed at initial recognition and this provision is re-assessed at each reporting date. ECLs are a probability-weighted estimate of possible default events related to the financial asset (over the lifetime or within 12 months after the reporting period, as applicable) and are measured as the difference between the present value of the cash flows due to Yangarra and the cash flows the Company expects to receive, including cash flows expected from collateral and other credit enhancements that are a part of contractual terms. In making an assessment as to whether financial assets are credit-impaired, the Company considers historically realized bad debts, evidence of a debtor's present financial condition and whether a debtor has breached certain contracts, the probability that a debtor will, or has entered bankruptcy or other financial reorganization, changes in economic conditions that correlate to increased levels of default, the number of days a debtor is past due in making a contractual payment, and the term to maturity of the specified receivable. The carrying amounts of financial assets are reduced by the amount of the ECL through an allowance account and losses are recognized as impairment of financial assets in the consolidated statements of income and comprehensive income.

Based on industry experience, the Company considers its commodity sales and joint interest accounts receivable to be in default when the receivable is more than 90 days past due. Once the Company has pursued collection activities and it has been determined that the incremental cost of pursuing collection outweighs the benefits, Yangarra derecognizes the gross carrying amount of the financial asset and the associated allowance from the consolidated statements of financial position.

Derecognition of financial liabilities

If an amendment to a contract or agreement comprises a substantial modification, Yangarra will derecognize the existing financial liability and recognize a new financial liability, with the difference recognized as a gain or loss in the consolidated statements of income and comprehensive income. To determine whether a modification is substantial, Yangarra performs a quantitative and qualitative test. Quantitatively, if the present value of the cash flows under the new terms is at least 10 per cent different than the remaining cash flows of the original liability, the modification is deemed to be substantial. Qualitatively, the change is evaluated based on its impact to the economic risk associated with the liability and would be specific to the contract.

If the modification results in the extinguishment of a liability any associated fees are recognized as part of the gain or loss. If the modification is not deemed to be substantial, any associated fees adjust the liability's carrying amount and are amortized over the remaining term.

2. Summary of significant accounting policies (continued)

b) Inventory

Inventory is carried at the lower of cost and net realizable value on a weighted average cost basis. Inventory is primarily comprised of pipe, compressors and production equipment that will be utilized in future drilling activity. The cost of inventory includes all cost incurred in the normal course of business to bring each product to its present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less any expected selling costs. If the carrying amount exceeds net realizable value, a write-down is recognized. The write-down may be reversed in a subsequent period if circumstances which caused it no longer exist and the inventory is still on hand.

c) Property and equipment and exploration and evaluation assets

(i) Exploration and evaluation assets

Exploration and evaluation ("E&E") costs, including the costs of acquiring licenses and directly attributable general and administrative costs, are capitalized as either tangible or intangible E&E assets according to the nature of the assets acquired. The costs are accumulated pending the determination of technical feasibility and commercial viability. Costs incurred prior to acquiring the legal rights to explore an area are charged directly to net income as E&E expense. Assets classified as E&E are not depleted or depreciated.

The Company assesses the recoverability of the E&E assets, before and at the moment of reclassification, to property and equipment. E&E assets are assessed for impairment if (a) sufficient data exists to determine technical feasibility and commercial viability and (b) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. The impairment of E&E assets, and any eventual reversal thereof, is recognized in profit or loss.

The technical feasibility and commercial viability of extracting a mineral resource is determinable when proved or probable reserves are determined to exist. A review of each license or field is carried out, at least annually, to ascertain whether proved or probable reserves have been discovered. Upon determination of proved or probable reserves, intangible E&E assets attributable to these reserves are first tested for impairment and then reclassified from E&E assets to property and equipment. The cost of undeveloped land that expires is recognized in the consolidated statements of income and comprehensive income.

(ii) Property and equipment

Property and equipment ("P&E") are carried at cost, less accumulated depletion, depreciation and accumulated impairment losses. The cost includes directly attributable costs incurred for the drilling and completion of wells and the construction of production processing facilities, any costs directly attributable to bringing the asset into the location and condition necessary for its intended use, a discounted current estimate of the decommissioning costs and borrowing costs for qualifying assets.

Accumulated costs are depleted using the unit-of-production method. Depletion is calculated using the ratio of production in the year to the remaining total proved and probable reserves before royalties, taking into account future development costs necessary to bring those reserves into production. These estimates are evaluated and reported on by independent reserve engineers annually. Proved and probable reserves are estimated using independent reserve engineer reports. There should be a 50 percent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proved and probable and a 50 percent statistical probability that is will be less. The equivalent statistical probabilities for proved reserve components are 90 percent and 10 percent, respectively.

2. Summary of significant accounting policies (continued)

c) Property and equipment and exploration and evaluation assets (continued)

(ii) Property and equipment (continued)

Where an item of P&E comprises major components with different useful lives, the components are accounted for as separate items of P&E. The expected useful lives of P&E, residual values and methods of depreciation are reviewed at each reporting period and, if necessary, changes are accounted for prospectively.

Changes in estimates such as quantities of proved and probable reserves that affect unit-of-production calculations are applied on a prospective basis. An item of P&E is derecognized upon disposal or is impaired when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss on disposal of the asset, determined as the difference between the net proceeds and the carrying amount of the asset, is recognized in the consolidated statements of income and comprehensive income in the period incurred.

Other assets are recorded at cost less accumulated depreciation, which is calculated using the declining balance method at rates of 20 percent to 30 percent per annum.

(iii) Impairment of non-financial assets

At each financial reporting date, the carrying amounts of P&E are reviewed to determine whether there is any indication that those assets are impaired. If such indication exists, an estimate of the recoverable amount of the asset is calculated.

Individual assets are grouped together for impairment assessment purposes into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash generating unit or CGU). The carrying amount of P&E assets within a CGU is compared to the recoverable amount of the CGU. E&E assets are allocated to CGUs when they are assessed for impairment if indicators of impairment exist as well as upon their reclassification into P&E.

A CGU's recoverable amount is the higher of its fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money to the Company and the risks specific to the asset. Fair value less costs of disposal is derived by estimating the discounted after-tax future net cash flows less estimated cost to sell the CGU. Discounted future net cash flows are based on forecasted commodity prices and costs over the expected economic life of the reserves and discounted market-based rates to reflect a market participant's view of the risks associated with the assets.

Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount. The impairment loss is charged to the consolidated statements of income and comprehensive income. A previously recognized impairment loss is reversed or partially reversed only if there has been a change in the assumptions used to determine the CGU's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the CGU is increased to its recoverable amount. The new carrying amount cannot exceed the carrying amount that would have been determined, net of depletion and depreciation, had no impairment loss been recognized for the CGU in prior periods.

2. Summary of significant accounting policies (continued)

c) Property and equipment and exploration and evaluation assets (continued)

(iv) Decommissioning liability

The Company recognizes a decommissioning liability in the period it arose with a corresponding increase to the carrying amount of the related asset. Measurement occurs when a legal or constructive obligation arises. Provisions are measured at the present value of management’s best estimate of the expenditures expected to be required to settle the liability discounted using the risk-free rate, updated at each reporting date. The increase in the provision due to the passage of time (accretion) is recognized as a finance expense whereas increases or decreases due to changes in the estimated cost to decommission the asset are capitalized as P&E or E&E. Actual costs incurred upon settlement of the decommissioning liability reduce the liability to the extent the provision was established and differences between actual costs incurred and estimated costs will be recorded as a gain or loss. The related decommissioning asset is depreciated or depleted on the same basis as the P&E to which it relates.

d) Leases

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A lease obligation is recognized at the commencement of the lease term at the present value of the lease payments that are not paid at that date discounted using the rate implicit in each lease or, if that cannot be readily determined, the incremental borrowing rate. At the commencement date, a corresponding right-of-use (“ROU”) asset is recognized at the amount of the lease liability, adjusted for retirement costs and initial direct costs. Depreciation is recognized on the ROU asset over the earlier of the useful life and term of the lease. Interest expense is recognized on the lease obligations using the effective interest rate method and payments are applied against the lease liability.

In cases where the leased asset is used in the Company’s jointly controlled operations, Yangarra, as the operator, is the obligor to the lessor and presents the full amount of the lease obligation and ROU asset at the commencement date of the lease. Certain payments relating to the Company’s lease obligation may be recovered over time in accordance with billings for each partner’s proportionate interest in the joint operation and are recognized on the consolidated statements of income and comprehensive income.

Short-term leases and leases of low-value assets are not recognized on the consolidated statements of financial position and lease payments are instead recognized in the consolidated statements of income and comprehensive income as incurred. For certain classes of leases, Yangarra does not separate lease and non-lease components, accounting for these leases as a single lease component.

e) Joint operations

A portion of the Company's petroleum and natural gas exploration and production activities are conducted jointly with others, and, accordingly, these consolidated financial statements reflect only the Company's proportionate interest in such activities.

2. Summary of significant accounting policies (continued)

f) Taxes

Tax expense represents the sum of current tax expense and deferred tax expense. Income tax expense is recognized in the consolidated statements of income and comprehensive income as incurred except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognized, using the balance sheet method, based on differences in the financial statement carrying amount for assets and liabilities and the associated tax balance. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused tax credits carried forward and unused tax losses to the extent that it is probable that there will be taxable profits against which deductible temporary differences can be utilized. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the tax benefit will be realized.

Deferred tax assets and liabilities are measured based on enacted or substantively enacted tax rates for the period in which the temporary differences are expected to be realized or settled and are presented as non-current.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and when the Company intends to settle its current tax assets and liabilities on a net basis.

g) Revenue from contracts with customers

The Company principally generates revenue from the sale of commodities, which include crude oil and natural gas. Revenue associated with the sale of commodities is recognized when control is transferred from the Company to its customers. The Company's commodity sale contracts represent a series of distinct transactions. The Company considers its performance obligations to be satisfied and control to be transferred when all the following conditions are satisfied:

- The Company has transferred title and physical possession of the commodity to the buyer;
- The Company has transferred significant risks and rewards of ownership of the commodity to the buyer; and,
- The Company has the present right to payment.

Revenue is measured based on the consideration specified in a contract with the customer. Payment terms for the Company's commodity sales contracts are on the 25th of the month following delivery. The Company does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a result, the Company does not adjust its revenue transactions for the time value of money. Revenue represents the Company's share of commodity sales net of royalty obligations to governments and other mineral interest owners.

The Company enters into contracts with customers that can have performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date. The Company applies a practical expedient of IFRS 15 Revenue from Contracts with Customers and does not disclose information about remaining performance obligations that have original expected durations of one year or less, or for performance obligations where the Company has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Company's performance completed to date.

2. Summary of significant accounting policies (continued)

g) Revenue from contracts with customers (continued)

Contract modifications with the Company's customers could change the scope of the contract, the price of the contract, or both. A contract modification exists when the parties to the contract approve the modification either in writing, orally, or based on the parties' customary business practices. Contract modifications are accounted for either as a separate contract when there is an additional product at a stand-alone selling price, or as part of the existing contract, through either a cumulative catch-up adjustment or prospectively over the remaining term of the contract, depending on the nature of the modification and whether the remaining products are distinct.

Yangarra has applied the practical expedient to recognize revenue in the amount to which the Company has the right to invoice. As such, no disclosure is included relating to the amount of transaction price allocated to remaining performance obligations and when these amounts are expected to be recognized as revenue.

h) Share-based compensation plan

Periodically, the Company will grant stock options in exchange for the provision of services from certain employees, directors, officers and consultants. The Company follows the fair value method of valuing stock option grants using the Black-Scholes pricing model. Share-based compensation expense is determined based on the estimated fair value of stock options on the date of grant. Forfeitures are estimated at the grant date and are subsequently adjusted to reflect actual forfeitures. Volatility is calculated using a historical trading period for the Company's shares that matches the life of the stock options. Share-based compensation expense is recognized over the service period, with a corresponding increase to contributed surplus. The Company capitalizes the qualifying portion of share-based compensation directly attributable to the development activities of E&E and P&E assets with a corresponding decrease to share-based compensation expense. At the time the stock options are exercised, cash consideration received along with the related fair value amount transferred from contributed surplus is recorded as an increase to share capital.

i) Per share amounts

Basic earnings per share is calculated by dividing the net income for the year attributable to equity owners of the Company by the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments using the treasury stock method. The Company's potentially dilutive instruments are comprised of stock options granted and exercisable at the reporting date.

j) Provisions

Provisions and liabilities for legal and other contingent matters are recognized in the period when it becomes probable a future cash outflow resulting from past operations or events will occur and the amount of the cash outflow can be reasonably estimated. The timing of recognition and measurement of the provision requires the application of judgment to existing facts and circumstances, which can be subject to change, and the carrying amounts of provisions and liabilities are reviewed regularly and adjusted accordingly. The Company is required to both determine whether a loss is probable based on judgment and interpretation of laws and regulations and determine that the loss can be reasonably estimated. When a loss is recognized, it is charged to the consolidated statements of income and comprehensive income. The Company continually monitors known and potential contingent matters and makes appropriate provisions when warranted by the circumstances present.

2. Summary of significant accounting policies (continued)

k) Significant accounting estimates judgments and estimates

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect reported amounts and presentation of assets, liabilities, revenues, expenses and disclosures of contingencies and commitments. Such estimates primarily relate to unsettled transactions and events at the statement of financial position date which are based on information available to management at each financial statement date. Actual results could differ from those estimated as future confirming events occur. Judgments, estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. By their nature, judgments and estimates are subject to measurement uncertainty and the effect of changes in such judgments and estimates on the consolidated financial statements for current and future periods could be significant.

Key sources of judgements

Lease arrangements

Management applies judgment in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease. Leases that are recognized are subject to further management judgment and estimation in various areas specific to the arrangement including lease term and discount rate. In determining the lease term to be recognized, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Where the discount rate implicit in a lease obligation is not readily determinable, the rate is estimated using company-specific incremental borrowing rate. This rate represents the rate that the Company would incur to obtain the funds necessary to purchase an asset of a similar value, with similar payment terms and security in a similar economic environment.

Determination of CGUs

The Company's assets are aggregated into CGUs based on their ability to generate largely independent cash flows and are used for impairment testing. CGUs are determined by similar geological structures, similar exposure to market risk, shared infrastructure and geographical proximity. As at December 31, 2022 and 2021, the Company had one CGU.

Impairment indicator assessment

The Company assesses its P&E and E&E assets for possible impairment if there are events or changes in circumstances that indicate the carrying values of the assets may not be recoverable. Such indicators include changes in the Company's business plans, changes in commodity prices, evidence of physical damage, significant downward revisions to estimated recoverable volumes or increases in estimated future development expenditures and the Company's market capitalization versus the net asset value.

Contingencies

By their nature, contingencies will only be resolved when one or more of the future events occur or fail to occur. The recognition of contingencies inherently involves the estimates of the outcome of future events.

2. Summary of significant accounting policies (continued)

k) Significant accounting estimates judgments and estimates (continued)

Key sources of estimates

Reserves

Reserves are used in the unit-of-production calculation for depletion and depreciation as well as impairment analysis. The quantity of reserves is subject to a number of estimates and projections including assessment of engineering data, projected future rates of production, commodity prices, regulatory changes, operating costs and sustaining capital expenditures. However, all reserve and associated financial information is evaluated and reported on by a firm of qualified independent reserve evaluators in accordance with the standards prescribed by applicable securities regulators. The calculation of future cash flows based on these reserves is dependent on a number of estimates including: production volumes, facility performance, commodity prices, and royalties, operating costs, sustaining capital and tax rates. The price used in the Company's assessment of future cash flows is based on the Company's independent evaluator's estimate of future prices and evaluated for reasonability by the Company against other available information.

Decommissioning liabilities

The Company measures decommissioning liabilities at each financial statement date based on the Company's estimated share of costs to reclaim the assets and certain facilities. To determine the future value of the liability, estimates of the amount, timing and inflation of the associated abandonment costs are made. The present value of the cost is recorded as the decommissioning liability using a risk-free discount rate.

Due to the long-term nature of current and future project developments, abandonment costs will be incurred many years in the future. Because of these factors, different estimates could be used for such abandonment costs and the associated timing. Assumptions of higher future abandonment costs, regulatory changes, higher inflation, lower risk-free rates or an assumption of earlier or specified timing of abandonment would cause the decommissioning liability of the corresponding asset to increase. These changes would also cause future accretion expenses to increase.

Impairment of non-financial assets

The assessment for impairment for P&E and E&E assets involves comparing the carrying value of the CGU with the higher of value in use calculations and fair value less costs of disposal. Determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters such as future commodity prices, the effects of inflation on operating expenses, discount rates, production profiles and the outlook for regional supply-and-demand conditions for crude oil, natural gas and liquids. In determining the appropriate discount rate the Company considers the acquisition metrics of recent transactions completed on similar assets to those in the specific CGU.

Accounts receivable

Significant estimates are included in accounts receivable in terms of collectability as a significant portion of the balance is in dispute, the outcome for which is uncertain and could result in a material adjustment to the consolidated financial statements.

Deferred taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

2. Summary of significant accounting policies (continued)

k) Significant accounting estimates judgments and estimates (continued)

<u>Key sources of estimation uncertainty (continued)</u>

Contingencies

When recognized, management makes its best estimate with respect to future cash outflow.

Share-based compensation

The recognition of amounts in relation to share-based compensation requires estimates related to valuation of stock options at the time of issuance including share price, risk-free rate, volatility, expected life and forfeitures.

Commodity and interest rate contracts

The fair value of commodity and interest rate contracts is calculated using valuation models that require estimates as to future market prices expected interest rates and expected volatility in these variables.

l) New accounting pronouncements

Amendments to IAS 16 Property, Plant and Equipment

On January 1, 2022, the Company adopted amendments to IAS 16 which prohibit a company from deducting from the cost of P&E amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets

On January 1, 2022, the Company adopted amendments to IAS 37 which specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous.

The adoption of these amendments did not have a material impact on the consolidated financial statements.

m) Future accounting pronouncements

The Company has reviewed amended accounting pronouncements that have been issued but are not yet effective and determined that the following pronouncements may impact the Company but are not expected to have a material impact on its consolidated financial statements:

Amendments to IAS 12 Income Taxes

Effective January 1, 2023, amendments to IAS 12 require entities to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Effective January 1, 2023, amendments to IAS 8 replace the definition of a change in accounting estimate with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. The amendments clarify that a change in an accounting estimate that results from new information or new developments is not the correction of an error.

(in thousands of Canadian dollars, except per share and per unit amounts)

2. Summary of significant accounting policies (continued)

m) Future accounting pronouncements (continued)

Amendments to IAS 1 Presentation of Financial Statements

Effective January 1, 2023, amendments to IAS 1 require that a company disclose its material accounting policies rather than its significant accounting policies and explain how a company can identify material accounting policies.

Effective January 1, 2024, amendments to IAS 1 clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability with covenants as current or non-current and related disclosure.

3. Property and equipment

		Oil and Natural Gas Interests		*Well and Plant Equipment*		*Other Assets*		*Total*
Cost								
Balance at December 31, 2020	$	631,457	$	132,419	$	13,012	$	776,888
Cash additions		78,592		8,872		689		88,153
Share-based compensation *(note 9)*		232		–		–		232
Decommissioning liability *(note 7)*		1,903		–		–		1,903
ROU asset additions *(note 6)*		–		–		1,557		1,557
Balance, December 31, 2021		712,184		141,291		15,258		868,733
Cash additions		**97,269**		**11,200**		**885**		**109,354**
Share-based compensation *(note 9)*		**553**		–		–		**553**
Decommissioning liability *(note 7)*		**227**		–		–		**227**
ROU asset addition *(note 6)*		–		–		**622**		**622**
Balance, December 31, 2022	**$**	**810,233**	**$**	**152,491**	**$**	**16,765**	**$**	**979,489**
Depletion and depreciation								
Balance at December 31, 2020	$	191,798	$	16,365	$	5,435	$	213,598
Depletion and depreciation		23,148		1,963		430		25,541
ROU asset depreciation		–		–		1,646		1,646
Balance, December 31, 2021		214,946		18,328		7,511		240,785
Depletion and depreciation		**32,526**		**2,647**		**340**		**35,513**
ROU asset depreciation		–		–		**2,146**		**2,146**
Balance, December 31, 2022	**$**	**247,472**	**$**	**20,975**	**$**	**9,997**	**$**	**278,444**
At December 31, 2021	$	497,238	$	122,963	$	7,747	$	627,948
At December 31, 2022	**$**	**562,761**	**$**	**131,516**	**$**	**6,768**	**$**	**701,045**

(in thousands of Canadian dollars, except per share and per unit amounts)

3. Property and equipment (continued)

At December 31, 2022, all of the Company's properties are pledged as security for the bank debt (note 5). The calculation of depletion for the year ended December 31, 2022 included estimated future development costs of $608,396 (2021 – $658,037) associated with the development of the Company's proved plus probable reserves.

Cash additions for the year ended December 31, 2022 include $1,331 (2021 - $1,343) of recoveries related to the Company's working interest in operated capital expenditure programs on which overhead has been charged in accordance with standard industry operating agreements and $423 (2021 – $318) of capitalized salaries and consulting expenses directly related to geological, drilling and completions.

Included in property and equipment as at December 31, 2022 is $3,636 (2021 – $5,159) of right-of-use ("ROU") assets associated with the Company's lease obligations.

Impairment

As at December 31, 2022 there were no indicators of impairment for the Company's CGU.

As at December 31, 2021, the Company conducted an assessment of indicators of impairment for its CGU. The Company identified a technical revision of reserve base as an indicator of an impairment at December 31, 2021. As a result, the Company performed an impairment assessment of its P&E and its E&E assets on a combined basis as they are in the same CGU. The impairment assessment was performed using the December 31, 2021 reserve estimates prepared by independent reserve engineers. It was determined that no impairment was necessary as at December 31, 2021.

The recoverable amount was estimated based on proved plus probable reserve values using before-tax discount rates specific to the underlying composition of reserve categories and risk profiles. The discount rates applied to the different reserve categories ranged from 10 to 20 percent when the fair value less costs of disposal methodology was used.

The following forward commodity prices were used to estimate the December 31, 2021 recoverable amount:

Year	Edmonton Light Crude CDN$/bbl	WTI Oil US$/bbl	AECO Gas CDN$/mcf	Foreign Exchange Rate US$/CDN$
2022	$81.25	$65.30	$3.65	$0.800
2023	$75.25	$61.40	$3.25	$0.800
2024	$70.25	$62.60	$3.15	$0.800
2025	$71.65	$63.85	$3.25	$0.800
2026	$73.05	$65.30	$3.30	$0.800
Thereafter	2.0%/year	2.0%/year	2.0%/year	$0.800

The results of Yangarra's impairment test are sensitive to changes in any of the key estimates of which changes could decrease the recoverable amounts of assets and result in impairment charges. An increase to the discount rate to 15% did not result in an impairment.

(in thousands of Canadian dollars, except per share and per unit amounts)

4. Exploration and evaluation assets

Cost		
Balance at December 31, 2020	$	31,730
Additions		387
Balance at December 31, 2021	$	32,117
Additions		3,888
Balance at December 31, 2022	**$**	**36,005**
Impairment losses		
Balance at December 31, 2022, 2021 and 2020	**$**	**9,775**
Net book value		
At December 31, 2021	**$**	22,342
At December 31, 2022	**$**	**26,230**

All undeveloped land is in the Company's core Cardium area.

5. Bank debt

As at December 31, 2022, the maximum amount available under the syndicated credit facility was $180,000 (December 31, 2021 – $210,000) comprised of a $155,000 (December 31, 2021 – $185,000) extendable revolving term credit facility and a $25,000 (December 31, 2021 – $25,000) operating facility. The amount available under these facilities is re-determined at least twice a year and is primarily based on the Company's oil and gas reserves, the syndicate of lending institutions' forecast commodity prices, the current economic environment and other factors as determined by the syndicate (the "Borrowing Base"). If the total advances made under the credit facilities are greater than the re-determined Borrowing Base, the Company has 60 days to repay any shortfall. The facilities last for a 183-day period and will be subject to its next 364-day extension by May 31, 2023. If not extended by May 31, 2023, the facilities will cease to revolve and all outstanding balances will become repayable six months from that date.

Balance, December 31, 2020	$	200,273
Repayment (including $525 of debt transaction costs)		(5,329)
Accretion of debt transaction costs		478
Balance, December 31, 2021	$	195,422
Repayment		(56,476)
Accretion of debt transaction costs		459
Balance, December 31, 2022	$	**139,405**

As at December 31, 2022, the $139,405 (December 31, 2021 – $195,422) reported amount of bank debt was comprised of $593 (December 31, 2021 – $11,564) drawn on the operating facility, $139,130 (December 31, 2021 – $184,373) drawn on the extendible revolving term credit facility and net of unamortized transaction costs of $318 (December 31, 2021 – $515).

The Company is subject to a single financial covenant requiring an adjusted working capital ratio above 1:1 (current assets plus the undrawn availability under the revolving facility, divided by the current liabilities less the drawn portion of the revolving facility and excluding unrealized commodity contracts). The Company was in compliance with this covenant as December 31, 2022 and December 31, 2021. The syndicated credit facility is secured by a general security agreement over all assets of the Company. The total standby fees on the revolving facility range, depending on the debt to EBITDA ratio, between 200 bps to 400 bps on bank prime borrowings and between 300 bps and 500 bps on bankers' acceptances. The undrawn portion of the credit facility is subject to a standby fee in the range of 75 bps to 125 bps.

During the year ended December 31, 2022, the weighted average effective interest rate for the bank debt was approximately 6.4% (2021 – 5.3%).

(in thousands of Canadian dollars, except per share and per unit amounts)

6. Lease obligations

The Company incurs lease payments related to the oil hauling fleet, operator/crew trucks and the head office. Leases are entered into and exited in coordination with specific business requirements which includes the assessment of the appropriate durations for the related leased asset.

		2022		*2021*
Balance, beginning of year	$	**4,725**	$	5,129
Additions		**635**		1,859
Cancellations		**(13)**		(302)
Lease payments		**(2,331)**		(2,003)
Accretion		**79**		42
Balance, end of year	$	**3,095**	$	4,725
Current	$	**2,092**	$	2,353
Non-current	$	**1,003**	$	2,372

		2022	*2021*
Maturity analysis – contractual undiscounted cash flows			
Less than one year	$	**2,092**	2,353
One to six years		**1,849**	3,486
Total undiscounted lease obligations		**3,941**	5,839
Unrecognized imputed interest		**(846)**	(1,114)
Total lease obligation	$	**3,095**	4,725

7. Decommissioning liability

The following table presents the reconciliation of the carrying amount of the liability associated with the decommissioning of the Company's property and equipment:

		2022		*2021*
Balance, beginning of year	$	**13,796**	$	12,613
Liabilities incurred		**1,741**		1,941
Decommissioning costs incurred		**(291)**		(881)
Effect of change in estimates		**(1,514)**		(38)
Accretion		**349**		161
Balance, end of year	$	**14,081**	$	13,796
Current	$	**488**	$	105
Non-current	$	**13,593**	$	13,691

The current portion of decommissioning liability relates to wells the Company plans to abandon and reclaim in the next 12 months as part of the Alberta Energy Regulator's mandatory spend target.

The following significant assumptions were used to estimate the decommissioning liability:

		2022		*2021*
Undiscounted cash flows	$	**18,490**	$	16,179
Discount rate		**2.27% - 4.06%**		0.22% - 1.98%
Inflation rate		**2%**		2%
Weighted average expected timing of cash flows		**6.7 years**		6.9 years

(in thousands of Canadian dollars, except per share and per unit amounts)

8. Share capital

Common shares issued

	Number of shares		Amount
Balance, December 31, 2020	85,380	$	176,349
Exercise of stock options	1,269		1,131
Contributed surplus transferred on exercise of stock options	–		630
Balance, December 31, 2021	86,649		178,110
Exercise of stock options	1,336		1,077
Contributed surplus transferred on exercise of stock options	–		501
Balance, December 31, 2022	**87,985**	**$**	**179,688**

9. Share-based compensation

The Company has an equity-settled stock option plan under which the Board of Directors may grant stock options to directors, officers, other employees and key consultants. The purpose of the plan is to advance the interests of the Company by encouraging these individuals to acquire shares in the Company and thereby remain associated with and seek to maximize the value of the Company.

Under the plan, the number of shares reserved for issuance pursuant to the exercise of all stock options under the plan may not exceed 10% of the issued and outstanding common shares on a non-diluted basis at any time. Stock options expire not more than five years from the date of grant, or earlier if the individual ceases to be associated with the Company, and vest over terms determined at the time of grant.

During the year ended December 31, 2022, the Company granted stock options to purchase 1,354 (2021 – 2,026) common shares, vesting equally over three years starting one year after the grant date. The fair value of the stock options was estimated at $1,180 (2021 - $1,317) using the Black-Scholes option pricing model.

During the year ended December 31, 2022, the Company recognized $627 (2021 – $1,322) of share-based compensation in the consolidated statement of income and comprehensive income. During the year ended December 31, 2022, the Company capitalized $553 (2021 - $232) related to P&E.

The following table provides a continuity of stock options outstanding as at:

	2022		*2021*	
	Number of stock options	***Weighted – average exercise price***	*Number of stock options*	*Weighted – average exercise price*
Opening	**8,287**	**$0.86**	8,208	$0.75
Granted	**1,354**	**2.56**	2,026	1.01
Exercised	**(1,336)**	**(0.81)**	(1,269)	(0.89)
Cancelled	**(526)**	**(2.12)**	(678)	(0.25)
Closing	**7,779**	**$1.09**	8,287	$0.86

(in thousands of Canadian dollars, except per share and per unit amounts)

9. Share-based compensation (continued)

The following provides a summary of the stock options outstanding as at December 31, 2022:

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (years)*	*Weighted-average exercise price*	*Number exercisable*	*Weighted-average exercise price*
$ 0.45 – $ 0.49	**60**	**2.75**	**$ 0.45**	**60**	**$ 0.45**
$ 0.50 – $ 1.00	**4,830**	**2.69**	**0.57**	**4,830**	**0.57**
$ 1.01 – $ 1.50	**1,155**	**3.40**	**1.36**	**1,155**	**1.36**
$ 1.51 – $ 2.00	**428**	**3.88**	**1.66**	**213**	**1.66**
$ 2.00 – $ 2.50	**743**	**4.33**	**2.59**	**–**	**–**
$ 2.51 – $ 3.00	**308**	**4.59**	**2.59**	**–**	**–**
$ 3.01 – $ 3.50	**255**	**4.39**	**3.05**	**–**	**–**
	7,779	**3.15**	**$ 1.09**	**6,258**	**$ 0.75**

The Black-Scholes pricing model was used to estimate the fair value of stock options granted based on the following significant assumptions:

	2022	*2021*
Weighted average exercise per stock option	**$1.09**	$1.01
Risk-free interest rate	**2.18% - 3.32%**	0.36% - 1.25%
Expected volatility	**66% - 68%**	65% - 69%
Weighted average expected life	**4 years**	4 years
Forfeiture rate	**5%**	5%
Weighted average fair value per stock option	**$0.87**	$0.65

10. Earnings per common share

Basic earnings per share was calculated as follows:

	2022	2021
Net income for the year	$ **106,358**	$ 50,014
Weighted average number of shares (basic)		
Issued common shares at beginning of year	**86,649**	85,380
Stock options exercised	**774**	512
Weighted average number of common shares - basic	**87,423**	85,892
Net income per share - basic	**1.22**	0.58

Diluted earnings per share was calculated as follows:

Weighted average number of shares (diluted)		
Weighted average number of shares (basic)	**87,423**	85,892
Effect of outstanding options	**4,631**	3,484
Weighted average number of common shares - diluted	**92,054**	89,376
Net income per share - diluted	**1.16**	0.56

(in thousands of Canadian dollars, except per share and per unit amounts)

10. Earnings per common share (continued)

The average market value of the Company's shares for purposes of calculating the dilutive effect of stock options was based on average market prices for the year are excluded as they are out of the money based on an average share price of $2.67 (2021 – $1.34).

11. Change in non-cash working capital

		2022		*2021*
Accounts receivable	$	**(4,414)**	$	(8,845)
Prepaid expenses and inventory		**(3,787)**		33
Accounts payable and accrued liabilities		**1,788**		13,082
	$	**(6,413)**	$	4,270

The changes in non-cash working capital has been allocated to the following activities:

Operating	$	**(7,239)**	$	1,226
Investing		**826**		3,044
	$	**(6,413)**	$	4,270

12. Taxes

The provision for income taxes differs from the amount computed by applying the combined federal and provincial tax rates to the income before income tax. The difference results from the following:

		2022		*2021*
Income before income taxes	$	**137,745**	$	65,213
Combined federal and provincial statutory income tax rate		**23.0%**		23.0%
Expected income tax expense	$	**31,681**	$	14,996
Stock-based compensation		**153**		312
Other		**(447)**		(109)
Deferred tax expense	$	**31,387**	$	15,199

The components of the net deferred tax asset (liability) are:

		Balance December 31, 2021		*Recognized in income*	*Balance December 31, 2022*
Decommissioning liability	$	2,860	**$**	**423**	**3,283**
Non-capital loss carry-forwards		237		**7,651**	**7,888**
Commodity price risk contracts		3		**3**	**6**
Interest rate contracts		(83)		**83**	**–**
P&E		(72,797)		**(39,547)**	**(112,344)**
	$	(69,780)	**$**	**(31,387)**	**(101,167)**

(in thousands of Canadian dollars, except per share and per unit amounts)

12. Taxes (continued)

		Balance December 31, 2020		*Recognized in income*		*Balance December 31, 2021*
Decommissioning liability	$	3,896	$	(1,036)	$	2,860
Non-capital loss carry-forwards		237		–		237
Commodity price risk contracts		(29)		32		3
Interest rate contracts		776		(859)		(83)
P&E		(59,461)		(13,336)		(72,797)
	$	(54,581)	$	(15,199)	$	(69,780)

As at December 31, 2022, the Company has approximately $259.9 million (2021 - $321.4 million) of tax pools available for deduction against future taxable income.

13. Related party disclosure

Compensation of key management personal (directors and officers):

		2022		2021
Compensation	$	**1,797**	$	2,293
Share-based payments		**364**		1,059
	$	**2,161**	$	3,352

During the year ended December 31, 2021, the Company was charged or invoiced $417 (2021 - $325) by companies controlled by certain of the Company's officers and directors for services rendered including $ nil in accounts payable and accrued liabilities at December 31, 2022 (2021 - $16).

14. Financial instruments and financial risk management

The Company’s risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company’s activities. The Company has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments. This note presents information about the Company’s exposure to each of the above risks and the Company’s objectives, policies and processes for measuring and managing these risks. Further quantitative disclosures are included throughout these consolidated financial statements. The Board of Directors has overall responsibility for the establishment and oversight of the Company’s risk management framework. The Board of Directors has implemented and monitors compliance with the risk management policies as set out herein:

a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. A substantial portion of the Company’s accounts receivable are with natural gas and liquids marketers and partners on joint operations in the oil and gas industry and are subject to normal industry credit risks.

Purchasers of the Company’s natural gas and liquids are subject to credit review to minimize the risk of non-payment. As at December 31, 2022, the maximum credit exposure is the carrying amount of the accounts receivable of $31,950 (2021 – $27,536).

(in thousands of Canadian dollars, except per share and per unit amounts)

14. Financial instruments and financial risk management (continued)

a) Credit risk (continued)

The maximum exposure to credit risk for accounts receivable as at December 31, 2022 and 2021 by type of customer was:

		2022		*2021*
Natural gas and liquids marketers	$	**19,985**	$	16,186
Partners on joint operations		**9,677**		8,638
Other		**2,288**		2,712
	$	**31,950**	$	27,536

Receivables from natural gas and liquids marketers are typically collected on the 25th day of the month following production. The Company has mitigated the credit risk associated with the natural gas and liquids marketer through a security arrangement with Computershare. The Company historically has not experienced any significant collection issues with its natural gas and liquids marketers. The majority of the revenue accruals and receivables from natural gas and liquids marketers were received in January 2023.

Receivables from partners on joint operations are typically collected within one to three months of the bill being issued to the partner. The Company mitigates the risk from receivables from partners on joint operations by obtaining partner approval of capital expenditures prior to starting a project. However, the receivables are from participants in the petroleum and natural gas sector, and collection is dependent on typical industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. Further risk exists with partners on joint operations as disagreements occasionally arise which increases the potential for non-collection. For properties that are operated by the Company, production can be withheld from partners on joint operations who are in default of amounts owing. In addition, the Company often has offsetting amounts payable to partners on joint operations from which it can net receivable balances.

As at December 31, 2022 and December 31, 2021, the Company's receivables are aged as follows:

		2022		*2021*
Under 30 days	$	**21,273**	$	18,453
30 to 60 days		**486**		50
60 to 90 days		**1,942**		888
Over 90 days		**8,249**		8,145
	$	**31,950**	$	27,536

As at December 31, 2022, 97% (2021 – 98%) of the over 90-day receivables are made up of three (2021 – three) industry partners, for which a significant portion of the balances are in dispute (note 18). The Company has performed an analysis of each partner's financial situation and have determined they have the ability to pay.

Risk management assets and liabilities consist of commodity contracts used to manage the Company's exposure to fluctuations in commodity prices. The Company manages the credit risk exposure related to risk management contracts by selecting investment grade counterparties and by not entering into contracts for trading or speculative purposes. During 2022 and 2021, the Company did not experience any collection issues with risk management contracts. The Company typically does not obtain or post collateral or security from its oil and natural gas marketers or financial institution counterparties. The carrying amounts of accounts receivable represent the maximum credit exposure.

(in thousands of Canadian dollars, except per share and per unit amounts)

14. Financial instruments and financial risk management (continued)

b) Liquidity risk

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation. The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. The Company uses authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures.

To facilitate the capital expenditure program, the Company has a credit facility agreement which is regularly reviewed by the lender. The Company monitors its total debt position monthly. The Company also attempts to match its payment cycle with collection of petroleum and natural gas revenues on the 25th of each month. The Company anticipates it will have adequate liquidity to fund its financial liabilities through its future cash flows and availability on bank facilities. The Company's financial liabilities are comprised of accounts payable and accrued liabilities, interest rate contracts, commodity contracts, lease obligations, other liabilities and bank debt, which are classified as current or non-current on the consolidated statements of financial position based on their maturity dates.

As December 31, 2022, the contractual maturities of the Company's obligations are as follows:

	Carrying Amount	Contractual Cash Flows	Less than 1 year	1-2 Years	2-5 Years
Accounts payable and accrued liabilities	$ 35,718	$ 35,718	$ 35,718	$ –	$ –
Bank debt	139,405	139,825	–	139,825	–
Lease obligations	3,095	3,941	2,092	947	902
Other liabilities	1,018	1,018	–	–	1,018
	$ 179,236	$ 180,502	$ 37,810	$ 140,772	$ 1,920

c) Market risk

Market risk consists of interest rate risk, currency risk and commodity price risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. The Company may use both financial derivatives and physical delivery sales contracts to manage market risks. All such transactions are conducted in accordance with a risk management policy set out herein:

(i) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its bank debt which bears interest at a floating rate. The Company does not have any interest rate contracts in place as at December 31, 2022.

(in thousands of Canadian dollars, except per share and per unit amounts)

14. Financial instruments and financial risk management (continued)

c) Market risk (continued)

(ii) Currency risk

Currency risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. All of the Company's petroleum and natural gas sales are denominated in Canadian dollars, however, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. The sensitivity of a 10% change in foreign exchange rates would have an immaterial impact the consolidated statements of income and comprehensive income.

(iii) Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian and United States dollar, as outlined above.

As at December 31, 2022, the Company was committed to the following commodity price risk contract for natural gas:

Year	Volume	Term	Reference	Type	Strike Price	Fair Value
2023	500 GJ/d	Jan - Dec	AECO - Monthly 7A	Collar	CAD $2.50 - $7.25/GJ	$ 24
Total						**$ 24**

As the Company had a limited number of derivatives in place as at December 31, 2022, the sensitivity of the fair value of a 10% volatility in commodity prices would have an immaterial impact on unrealized gains (losses) reported in the consolidated statements of income and comprehensive income.

d) Fair value of financial instruments

The fair value of accounts receivable and accounts payable and accrued liabilities approximate their carrying amount due to the short-term nature of the instruments. The fair value of the Company's debt approximates its carrying value as the interest rates charged on this debt are comparable to current market rates because they are variable. The fair values of the Company's risk management contracts are determined by discounting the difference between the contracted prices and published forward price curves as at the statement of financial position date, using the remaining contracted oil volumes and a risk-free interest rate (based on published government rates). The fair values of the Company's interest rate contracts are determined by discounting the difference between fixed rate payments from the contract and the variable payments as per published interest rates.

The fair values of financial instruments have been determined by various valuation methods as defined below:

- Level 1: fair value is based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and,
- Level 3: fair value is based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no transfers between levels in the fair value hierarchy for the year ended December 31, 2022.

(in thousands of Canadian dollars, except per share and per unit amounts)

14. Financial instruments and financial risk management (continued)

d) Fair value of financial instruments (continued)

The following table summarizes the carrying value and fair value of the Company's risk management assets and liabilities.

		2022		2021	
	Measurement Level	**Carrying Amount**	Fair Value	Carrying Amount	Fair Value
Financial assets at FVTPL:					
Interest rate contracts	2	**$ –**	**$** –	$ 621	$ 621
Commodity contracts	2	**$ 24**	**$** 24	$ –	$ –
Financial liabilities at FVTPL:					
Commodity contracts	2	**$ –**	**$** –	$ 11	$ 11
Interest rate contracts	2	**$ –**	**$** –	$ 257	$ 257

15. Capital disclosures

The Company's objective when managing capital is to maintain a flexible capital structure which will allow it to execute its capital expenditure program, which includes expenditures in oil and gas activities which may or may not be successful. Therefore, the Company monitors the level of risk incurred in its capital expenditures to balance the proportion of debt and equity in its capital structure.

The Company considers its capital structure to include shareholders' equity and debt:

	2022	*2021*
Shareholders' equity	$ **473,574**	$ 364,959
Bank debt	$ **139,405**	$ 195,422

The Company monitors capital based on annual cash flow from operating activities before changes in non-cash working capital and capital expenditure budgets, which are updated as necessary and are periodically reviewed and approved by the Board of Directors.

The Company manages its capital structure and makes adjustments by continually monitoring its business conditions including the current economic conditions, the risk characteristics of the Company's petroleum and natural gas assets, the depth of its investment opportunities, current and forecasted net debt levels, current and forecasted commodity prices and other facts that influence commodity prices and funds from operations such as quality and basis differentials, royalties, operating costs and transportation costs. In order to maintain or adjust the capital structure, the Company considers its forecasted cash flow from operating activities before changes in non-cash working capital while attempting to finance an acceptable capital expenditure program including acquisition opportunities, the current level of bank debt available from the Company's lender, the level of bank debt that may be attainable from its lender as a result of petroleum and natural gas reserve growth, the availability of other sources of debt with different characteristics than existing debt, the sale of assets, limiting the size of the capital expenditure program and the issue of new equity if available on favorable terms. At December 31, 2022 and December 31, 2021, the Company's capital structure was subject to the banking covenant disclosed in note 5. No changes were made to the capital policy in 2022.

(in thousands of Canadian dollars, except per share and per unit amounts)

16. Finance expense

		2022		2021
Cash interest and finance costs	$	**10,393**	$	11,329
Interest on lease obligations		**340**		119
Realized (gain) loss on interest rate contracts		**(393)**		802
Change in fair value of interest rate contracts		**364**		(4,542)
Accretion of decommissioning liability *(note 7)*		**349**		161
Accretion of debt transaction costs *(note 5)*		**459**		478
Accretion of lease obligations *(note 6)*		**79**		42
	$	**11,591**	$	8,389

17. Revenue

The Company derives its revenue from contracts with customers primarily through the sale of commodities at a point in time representing the following major product types:

		2022		2021
Crude Oil	$	**120,309**	$	71,035
Natural Gas		**75,505**		41,122
Natural Gas Liquids		**47,242**		28,132
	$	**243,056**	$	140,289

At December 31, 2022, receivables from contracts with customers, which are included in trade accounts receivable, were $24,005 (2021 - $16,620).

18. Contingency

In the normal conduct of operations, there are other pending claims by and against the Company. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. In the opinion of management, based on the advice and information provided by its legal counsel, the final determination of these other litigations will not materially affect the Company's financial position or results of operations.