Yangarra Resources Ltd.

Condensed Interim Consolidated Financial Statements

For three and nine months ended September 30, 2023 and 2022

Condensed Interim Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

		September 30 2023 (unaudited)		December 31 2022 (audited)
Assets				
Current				
Accounts receivable *(note 10)*	$	**31,872**	$	31,950
Prepaid expenses and inventory		**9,634**		8,809
Commodity contracts *(note 10)*		**6**		24
Total current assets		**41,512**		40,783
Non-current				
Property and equipment *(note 2)*		**751,896**		701,045
Exploration and evaluation assets		**26,494**		26,230
Total assets	$	**819,902**	$	768,058
Liabilities				
Current				
Accounts payable and accrued liabilities	$	**31,357**	$	35,718
Bank debt *(note 3)*		**7,073**		139,405
Commodity contracts *(note 10)*		**2,186**		–
Current portion of lease obligations *(note 4)*		**1,380**		2,092
Current portion of decommissioning liability *(note 5)*		–		488
Total current liabilities		**41,996**		177,703
Non-current				
Bank debt *(note 3)*		**120,000**		–
Lease obligations *(note 4)*		**1,417**		1,003
Other liabilities		**952**		1,018
Decommissioning liability *(note 5)*		**15,161**		13,593
Deferred tax liability		**116,978**		101,167
Total liabilities		**296,504**		294,484
Shareholders' equity				
Share capital *(note 6)*		**192,715**		179,688
Contributed surplus		**31,389**		28,821
Retained earnings		**299,294**		265,065
Total shareholders' equity		**523,398**		473,574
Total liabilities and shareholders' equity	$	**819,902**	$	768,058

Contingency (note 14)

Yangarra Resources Ltd.
Condensed Interim Consolidated Statements of Income and Comprehensive Income
For the three and nine months ended September 30
(unaudited, in thousands of Canadian dollars except per share amounts)

	Three months ended September 30		Nine months ended September 30	
	2023	2022	**2023**	2022
Revenue				
Petroleum and natural gas sales *(note 13)*	$ **45,414**	$ 62,791	$ **132,865**	$ 182,764
Royalties	**(3,087)**	(5,333)	**(11,729)**	(13,543)
	42,327	57,458	**121,136**	169,221
Commodity price risk contracts *(note 10c iii)*				
Gain (loss) on commodity contract settlement	**78**	(325)	**548**	(3,026)
Unrealized change in fair value of commodity contracts	**(2,889)**	821	**(2,204)**	1
	39,516	57,954	**119,480**	166,196
Expenses				
Production	**7,271**	6,765	**22,299**	17,135
Transportation	**1,873**	1,248	**4,983**	3,559
General and administrative	**1,231**	841	**4,166**	2,762
Finance *(note 12)*	**3,386**	2,960	**9,605**	8,072
Share-based compensation *(note 7)*	**416**	168	**1,301**	506
Depletion and depreciation *(note 2)*	**10,182**	9,779	**30,053**	27,492
	24,359	21,761	**72,407**	59,526
Income before tax	**15,157**	36,193	**47,073**	106,670
Deferred tax expense	**3,670**	8,257	**12,844**	25,383
Net income and total comprehensive income	$ **11,487**	$ 27,936	$ **34,229**	$ 81,287
Earnings per share *(note 8)*				
Basic	$ **0.12**	$ 0.32	$ **0.37**	$ 0.93
Diluted	$ **0.11**	$ 0.30	$ **0.35**	$ 0.88

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

(unaudited, in thousands of Canadian dollars)

	2023	2022
Share capital		
Balance, beginning of period	$ **179,688**	$ 178,110
Equity financing *(note 6)*	**13,009**	–
Exercise of stock options	**12**	1,040
Contributed surplus transferred on exercise of stock options	**6**	484
Balance, end of period	**192,715**	179,634
Contributed surplus		
Balance, beginning of period	**28,821**	28,142
Share-based compensation *(note 7)*	**2,574**	854
Exercise of stock options	**(6)**	(484)
Balance, end of period	**31,389**	28,512
Retained earnings		
Balance, beginning of period	**265,065**	158,707
Net income	**34,229**	81,287
Balance, end of period	**299,294**	239,994
Total shareholders' equity	$ **523,398**	$ 448,140

(unaudited, in thousands of Canadian dollars)

	Three months ended September 30		Nine months ended September 30	
	2023	2022	**2023**	2022
Operating				
Net income for the period	$ **11,487**	$ 27,936	$ **34,229**	$ 81,287
Add back non-cash items:				
Unrealized change in fair value of commodity contracts	**2,889**	(821)	**2,204**	(1)
Finance expense *(note 12)*	**3,386**	2,960	**9,605**	8,072
Share-based compensation *(note 7)*	**416**	168	**1,301**	506
Depletion and depreciation *(note 2)*	**10,182**	9,779	**30,053**	27,492
Deferred tax expense	**3,670**	8,257	**12,844**	25,383
Interest and finance costs paid *(note 12)*	**(3,036)**	(2,677)	**(8,764)**	(7,353)
Change in non-cash working capital *(note 9)*	**(2,999)**	1,838	**763**	(6,398)
Net cash flow from operating activities	**25,995**	47,440	**82,235**	128,988
Financing				
Issue of common shares *(note 6)*	–	–	**17,250**	–
Share issue costs *(note 6)*	**(5)**	–	**(1,274)**	–
Exercise of stock options	–	–	**12**	1,040
Bank debt repayment *(note 3)*	**(5,519)**	(10,805)	**(12,702)**	(41,920)
Lease obligation repayment *(note 4)*	**(387)**	(620)	**(1,131)**	(1,673)
Lease interest paid *(note 12)*	**(52)**	(85)	**(176)**	(258)
Realized interest rate contract settlement	–	–	–	393
Other liabilities advance (repayment)	–	–	**(66)**	277
Net cash flow from (used in) financing activities	**(5,963)**	(11,510)	**1,913**	(42,141)
Investing				
Additions to property and equipment *(note 2)*	**(25,334)**	(33,096)	**(78,013)**	(81,322)
Additions to exploration and evaluation assets	–	(3,506)	**(264)**	(3,888)
Change in non-cash working capital *(note 9)*	**5,302**	672	**(5,871)**	(1,637)
Net cash flow used in investing activities	**(20,032)**	(35,930)	**(84,148)**	(86,847)
Change in cash	–	–	–	–
Cash, beginning of period	–	–	–	–
Cash, end of period	$ –	$ –	$ –	$ –

The accompanying notes are an integral part of these condensed interim 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 condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Yangarra Resources Corp., Yangarra Production Partnership and Yangarra Holding Corp., after the elimination of intercompany transactions and balances.

The condensed interim consolidated financial statements were authorized for issue by the Company's Board of Directors on November 7, 2023.

Statement of compliance and authorization:

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting on a basis consistent with the accounting, estimation and judgement policies described in the Company's audited consolidated financial statements as at and for the year ended December 31, 2022 (the "Annual Financial Statements"). These condensed interim consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments and equity instruments which are recognized at fair value. All financial information is reported in Canadian dollars, unless otherwise noted. Certain information and disclosures normally included in the notes to the Annual Financial Statements prepared in accordance with International Financial Reported Standards have been condensed or omitted. These condensed interim consolidated financial statements should be read in conjunction with the Annual Financial Statements.

Material accounting policies:

The new accounting policies set out below were applied during the nine months ended September 30, 2023 by the Company and its subsidiaries in the condensed interim consolidated financial statements. These policies are considered material to the Company as they provide information to facilitate the understanding of other material information reported and disclosed in these condensed interim consolidated financial statements.

Flow-through shares

Expenditure deductions for income tax purposes related to development activities funded by flow-through equity instruments are renounced to investors in accordance with income tax legislation. The proceeds from issuance are allocated between the offering of shares and the sale of tax benefits. The allocation is made based on the difference between the quoted price of the existing shares and the amount the investor pays for the shares. A flow-through share premium liability is recognized for this difference. The liability is reversed when eligible capital expenditures are incurred, and a deferred tax liability is recognized at that time. Income tax expense is the difference between the amount of the deferred tax liability and the liability recognized on issuance.

Restricted Share Units ("RSUs")

The Company uses the fair value method for valuing RSUs. Under the fair value method, compensation costs attributable to stock-based compensation awards are measured at fair value at the date of grant and expensed over the vesting period with a corresponding increase to contributed surplus. A forfeiture rate is estimated on the date of grant and is adjusted to reflect the actual number of awards that vest. The fair value of each RSU award is determined with reference to the trading price of the Company's common shares on the date of grant.

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

2. Property and equipment

		Oil and Natural Gas Interests		*Well and Plant Equipment*		*Other Assets*		*Total*
Cost								
Balance, December 31, 2022	$	810,233	$	152,491	$	16,765	$	979,489
Cash additions		**62,541**		**14,026**		**1,446**		**78,013**
Share-based compensation *(note 7)*		**1,273**		–		–		**1,273**
Decommissioning liability *(note 5)*		**716**		–		–		**716**
ROU asset addition *(note 4)*		–		–		**902**		**902**
Balance, September 30, 2023	**$**	**874,763**	**$**	**166,517**	**$**	**19,113**	**$**	**1,060,393**
Depletion and depreciation								
Balance, December 31, 2022	$	247,472	$	20,975	$	9,997	$	278,444
Depletion and depreciation		**26,501**		**2,385**		**362**		**29,248**
ROU asset depreciation		–		–		**805**		**805**
Balance, September 30, 2023	**$**	**273,973**	**$**	**23,360**	**$**	**11,164**	**$**	**308,497**
At December 31, 2022	$	562,761	$	131,516	$	6,768	$	701,045
At September 30, 2023	**$**	**600,790**	**$**	**143,157**	**$**	**7,949**	**$**	**751,896**

At September 30, 2023, all of the Company’s properties are pledged as security for the bank debt (note 3). The calculation of depletion for the nine months ended September 30, 2023 included estimated future development costs of $530,385 (2022 – $576,673) associated with the development of the Company’s proved plus probable reserves.

Cash additions for the nine months ended September 30, 2023 include $754 (2022 - $913) 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 $138 (2022 – $351) of capitalized salaries and consulting expenses directly related to geological, drilling and completions.

Included in property and equipment at September 30, 2023 is $3,733 (December 31, 2022 – $3,636) of right-of-use (“ROU”) assets associated with the Company’s lease obligations.

3. Bank debt

As at September 30, 2023, the maximum amount available under the syndicated credit facility was $140,000 (December 31, 2022 – $180,000) comprised of a $115,000 (December 31, 2022 – $155,000) extendable revolving term credit facility and a $25,000 (December 31, 2022 – $25,000) operating facility. The credit facility will reduce by $5,000 per quarter through to September 30, 2024, at which point the facility will remain at $120,000. 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 364-day period and will be subject to the next 364-day extension by May 31, 2024. If not extended by May 31, 2024, the facilities will cease to revolve, and all outstanding balances will become repayable on May 31, 2025.

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

3. Bank debt (continued)

Balance, December 31, 2022	$	139,405
Repayment		**(12,702)**
Accretion of debt transaction costs		**370**
Balance, September 30, 2023	$	**127,073**
Current		**7,073**
Non-current		**120,000**

As at September 30, 2023, the $127,073 (December 31, 2022 – $139,405) reported amount of bank debt was comprised of $14,113 (December 31, 2022 – $593) drawn on the operating facility and $114,135 (December 31, 2022 – $139,130) drawn on the revolving facility and net of unamortized transaction costs of $1,175 (December 31, 2022 – $318).

The Company is subject to a 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 at September 30, 2023 and December 31, 2022. The facilities are secured by a general security agreement over all assets of the Company. Beginning July 3, 2023, the Company was required to ensure that not less than 50% of the forecasted daily production for the July 2023 – June 2024 twelve-month period is hedged. Thereafter, the Company is required to ensure that not less than 20% of the forecasted daily production for the July 2024 – December 2024 six-month period is hedged.

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 revolving facility is subject to a standby fee in the range of 75 bps to 125 bps.

During the nine months ended September 30, 2023, the weighted average effective interest rate for the bank debt was approximately 8.69% (nine months ended September 30, 2022 – 6.02%).

4. 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.

Balance, December 31, 2022	$	3,095
Additions		**1,402**
Cancellations		**(500)**
Lease payments		**(1,131)**
Accretion		**(69)**
Balance, September 30, 2023	$	**2,797**
Current	$	**1,380**
Non-current	$	**1,417**

Maturity analysis – contractual undiscounted cash flows		
Less than one year	$	**1,380**
One to six years		**1,826**
Total undiscounted lease obligations		**3,206**
Unrecognized imputed interest		**(409)**
Total lease obligation	$	**2,797**

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

5. 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:

Balance, December 31, 2022	$	14,081
Liabilities incurred		**1,217**
Effect of change in estimates		**(501)**
Accretion		**364**
Balance, September 30, 2023	$	**15,161**
Current	$	–
Non-current	$	**15,161**

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

Undiscounted cash flows	$	**20,159**
Discount rate		**2.86% - 4.87%**
Inflation rate		**2%**
Weighted average expected timing of cash flows		**6.1 years**

6. Share capital

Common shares issued

	Number of shares		*Amount*
Balance, December 31, 2022	87,985	$	179,688
Exercise of stock options	**25**		**12**
Contributed surplus transferred on exercise of stock options	**–**		**6**
CDE flow-through financing	**6,791**		**17,250**
CDE flow-through premium liability	**–**		**(3,260)**
Share issue costs (net of $293 in tax)	**–**		**(981)**
Balance, September 30, 2023	**94,801**	**$**	**192,715**

On March 27, 2023, the Company closed a "bought deal" financing, completed by way of a short form prospectus. 6,791 common shares were issued on a flow-through basis in respect of Canadian development expenses ("CDE Flow-Through Shares") at a price of $2.54 per CDE Flow-Through Share for gross proceeds of $17,250.

7. Share-based compensation

On January 2, 2023, the Company implemented a Restricted Share Unit ("RSU") program. In the RSU program's initial grant, the Company issued 1,590 RSUs that vest equally over 3 years with the last tranche vesting on January 2, 2026. The RSUs are exercisable in either cash or shares at the option of the Company. As it is the Company's intention to settle in shares, the RSUs are treated as share-based compensation with a value on the date of issue of $2.67 per RSU.

With the commencement of the RSU program, the Company will no longer issue any new options under the Stock Option plan. All previously issued stock options will continue to vest and expire as per the agreements in place when they were originally issued.

During the nine months ended September 30, 2023, the Company recognized $1,301 (2022 – $506) of share-based compensation in the condensed interim consolidated statements of income and comprehensive income. During the nine months ended September 30, 2023, the Company capitalized $1,273 (2022 - $348) of share-based compensation to property and equipment (note 2).

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

7. Share-based compensation (continued)

The following table provides a continuity of stock options outstanding as at September 30, 2023:

	Number of stock options	*Weighted – average exercise price*
Balance, December 31, 2022	7,779	$ 1.09
Exercised	**(25)**	**0.50**
Cancelled	**(145)**	**(1.68)**
Balance, September 30, 2023	**7,609**	**$ 1.08**

The following provides a summary of the stock options outstanding as at September 30, 2023:

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**	**2.00**	**$ 0.45**	**60**	**$ 0.45**
$ 0.50 – $ 1.00	**4,756**	**1.96**	**0.57**	**4,757**	**0.57**
$ 1.01 – $ 1.50	**1,131**	**2.65**	**1.36**	**1,131**	**1.36**
$ 1.51 – $ 2.00	**428**	**3.13**	**1.66**	**428**	**1.66**
$ 2.00 – $ 2.50	**696**	**3.57**	**2.45**	**324**	**2.45**
$ 2.51 – $ 3.00	**288**	**3.86**	**2.58**	**94**	**2.58**
$ 3.01 – $ 3.50	**250**	**3.64**	**3.05**	**125**	**3.05**
	7,609	**2.40**	**$ 1.08**	**6,919**	**$ 0.92**

8. Earnings per common share

Basic earnings per share was calculated as follows:

	Three months ended September 30		Nine months ended September 30	
	2023	2022	**2023**	2022
Net income for the period	$ **11,487**	$ 27,936	$ **34,229**	$ 81,287
Weighted average number of shares (basic)				
Issued common shares at beginning of period	**94,801**	87,951	**87,985**	86,649
Effect of common shares issued in the period	**–**	–	**4,659**	595
Weighted average number of common shares - basic	**94,801**	87,951	**92,644**	87,244
Net income per share - basic	**0.12**	0.32	**0.37**	0.93

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

8. Earnings per common share (continued)

Diluted earnings per share was calculated as follows:

	Three months ended September 30		Nine months ended September 30	
	2023	2022	**2023**	2022
Weighted average number of shares (diluted)				
Weighted average number of shares (basic)	**94,801**	87,951	**92,644**	87,244
Effect of outstanding options	**3,652**	4,658	**3,816**	4,622
Effect of outstanding RSUs	**1,590**	–	**1,590**	–
Weighted average number of common shares - diluted	**100,043**	92,609	**98,050**	91,866
Net income per share - diluted	**0.11**	0.30	**0.35**	0.88

The average market value of the Company’s shares for purpose of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding. For the three months ended September 30, 2023, 1,246 (2022 – 288) options were excluded based on an average share price of $1.83 (2022 – $2.67) for the period. For the nine months ended September 30, 2023, 1,246 (2022 – 288) options were excluded as they were out of the money based on an average share price of $1.94 (2022 – $2.63) for the period.

9. Change in non-cash working capital

	Three months ended September 30		Nine months ended September 30	
	2023	2022	**2023**	2022
Accounts receivable	$ **(5,378)**	$ 2,207	$ **78**	$ (7,393)
Prepaid expenses and inventory	**(791)**	(730)	**(825)**	(2,637)
Accounts payable and accrued liabilities	**8,472**	1,033	**(4,361)**	1,995
	$ **2,303**	$ 2,510	$ **(5,108)**	$ (8,035)

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

Operating	$ **(2,999)**	$ 1,838	$ **763**	$ (6,398)
Investing	**5,302**	672	**(5,871)**	(1,637)
	$ **2,303**	$ 2,510	$ **(5,108)**	$ (8,035)

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

10. Financial instruments and financial risk management

a. Accounts receivable and credit risk

Purchasers of the Company's natural gas and liquids are subject to credit review to minimize the risk of non-payment. As at September 30, 2023, the maximum credit exposure is the carrying amount of the accounts receivable of $31,872 (December 31, 2022 – $31,950).

The maximum exposure to credit risk for accounts receivable by type of customer was:

As at		***September 30, 2023***		*December 31, 2022*
Natural gas and liquids marketers	$	**19,744**	$	19,985
Partners on joint operations		**8,892**		9,677
Other		**3,236**		2,288
	$	**31,872**	$	31,950

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 October 2023.

The Company's receivables are aged as follows:

As at		***September 30, 2023***		*December 31, 2022*
Under 30 days	$	**21,812**	$	21,273
30 to 60 days		**39**		486
60 to 90 days		**2,149**		1,942
Over 90 days		**7,872**		8,249
	$	**31,872**	$	31,950

As at September 30, 2023, 98% (December 31, 2022 – 97%) of the over 90-day receivables are made up of three (December 31, 2022 – three) industry partners, for which a significant portion of the balances are in dispute (note 14). The Company has performed an analysis of each partner's financial situation and has determined that the industry partners have the ability to pay.

b. Liquidity risk

As at September 30, 2023, 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	$	31,357	$	31,357	$	31,357	$	–	$	–
Bank debt		127,073		128,248		8,248		120,000		–
Lease obligations		2,797		3,203		1,380		876		947
Other liabilities		951		951		–		–		951
Commodity contracts		2,186		2,186		2,186		–		–
	$	164,364	$	165,945	$	43,171	$	120,876	$	1,898

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

10. Financial instruments and financial risk management (continued)

c. Market risk

The Company has exposure to the following market risks:

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 and to mitigate this risk, the Company may enter into interest rate contracts. For the nine months ended September 30, 2023, if interest rates had been 1% lower with all other variables held constant, net income would have been $972 (2022 - $1,285) higher, due to lower interest expense. An equal and opposite impact would have occurred had interest rates been higher by the same amount. The Company had no interest rate contracts in place as at September 30, 2023.

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 the fair value of a 10% change in foreign exchange rates would have a nominal impact on 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.

As at September 30, 2023, the Company was committed to the following commodity price risk contracts:

Year	Volume		Term	Reference	Type	Strike Price	Fair Value	
Natural Gas								
2023	500	GJ/d	Jan - Dec	AECO - 7A	Collar	CAD $2.50 - $7.25/GJ	$	6
2023	7,000	GJ/d	Oct	AECO - 7A	Collar	CAD $1.25 - $2.50/GJ	$	(2)
2023	4,500	GJ/d	Oct	AECO - 7A	Collar	CAD $1.40 - $2.26/GJ	$	(12)
2023	5,700	GJ/d	Jul - Oct	AECO - 7A	Put	CAD $1.50	$	(26)
2023	2,700	GJ/d	Jul - Oct	AECO - 7A	Put	CAD $1.50	$	(16)
2023	6,500	GJ/d	Nov - Dec	AECO - 7A	Put	CAD $1.50	$	(43)
2023/2024	6,000	GJ/d	Nov23 - Jun24	AECO - 7A	Put	CAD $1.50	$	(187)
2023/2024	7,000	GJ/d	Nov23 - Jun24	AECO - 7A	Put	CAD $1.50	$	(159)
2024	7,000	GJ/d	Jan - Jun	AECO - 7A	Put	CAD $1.50	$	(168)

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

10. Financial instruments and financial risk management (continued)

c. Market risk

iii. Commodity price risk

Oil								
2023	700	bbl/d	Oct	WTI - CDN	Collar	CAD $70.00 - 115.00 /bbl	$	(170)
2023	450	bbl/d	Oct	WTI - CDN	Collar	CAD $70.00 - 113.45 /bbl	$	(127)
2023	100	bbl/d	Oct	WTI - USD	Swap	USD - $87.50	$	(11)
2023	200	bbl/d	Oct	WTI - CAD	Swap	CAD - $118.00	$	(27)
2023	500	bbl/d	Jul - Oct	WTI - USD	Put	USD - $50.00	$	(19)
2023	200	bbl/d	Jul - Oct	WTI - CDN	Collar	CAD $70.00 - 108.10 /bbl	$	(166)
2023/2024	1,100	bbl/d	Nov23 – Dec24	WTI - USD	Put	USD - $50.00	$	(83)
2023/2024	500	bbl/d	Nov23 – Dec24	WTI - USD	Put	USD - $50.00	$	(40)
2024	1,100	bbl/d	Jan - Jun	WTI - USD	Put	USD - $50.00	$	(417)
2024	500	bbl/d	Jan - Jun	WTI - USD	Put	USD - $50.00	$	(193)
2023/2024	400	bbl/d	Nov23 – Jun24	WTI - USD	Collar	USD $60.00 - 100.00 /bbl	$	(63)
2023/2024	800	bbl/d	Nov23 – Jun24	WTI - CAD	Collar	CAD $90.00 - 127.00 /bbl	$	(217)
Butane								
2023	100	bbl/d	Oct	Mnt Belvieu	Swap	USD 0.80/gal	$	(13)
2023	100	bbl/d	Oct	Mnt Belvieu	Swap	CAD 1.08/gal	$	(14)
Propane								
2023	100	bbl/d	Oct	Mnt Belvieu	Swap	USD 0.70/gal	$	(4)
2023	250	bbl/d	Oct	Mnt Belvieu	Swap	CAD 0.956/gal	$	(9)
Total							**$**	**(2,180)**

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

10. Financial instruments and financial risk management (continued)

d. Fair value of financial instruments

As the Company had a limited value of derivatives in place as at September 30, 2023, the sensitivity of the fair value of a 10% volatility in commodity prices would have a nominal impact on unrealized gains (losses) reported in the condensed interim consolidated statements of income and comprehensive income.

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

		September 30, 2023		*December 31, 2022*	
	Measurement Level	***Carrying Amount***	***Fair Value***	*Carrying Amount*	*Fair Value*
Financial Assets					
Financial assets at fair value through profit or loss:					
Commodity contracts	2	**$ 6**	**$ 6**	**$ 24**	**$** 24
Financial Liabilities					
Financial liabilities at fair value through profit or loss:					
Commodity contracts	2	**$ 2,186**	**$ 2,186**	**$** –	**$** –

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 three and nine months ended September 30, 2023.

11. Capital disclosures

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

	September 30, 2023	*December 31, 2022*
Shareholders' equity	$ **523,399**	$ 473,574
Bank debt	$ **127,073**	$ 139,405

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.

At September 30, 2023 and December 31, 2022, the Company's capital structure was subject to the banking covenant disclosed in note 3. No changes were made to the capital policy in 2023.

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

12. Finance expense

	Three months ended September 30		Nine months ended September 30	
	2023	2022	**2023**	2022
Cash interest and finance costs	$ **3,036**	$ 2,677	$ **8,764**	$ 7,353
Interest on lease obligations	**52**	85	**176**	258
Realized gain on interest rate contracts	–	–	–	(393)
Change in fair value of interest rate contracts	–	–	–	364
Accretion of decommissioning liability *(note 5)*	**129**	106	**364**	238
Accretion of debt transaction costs *(note 3)*	**182**	102	**370**	357
Accretion of lease obligations *(note 4)*	**(13)**	(10)	**(69)**	(105)
	$ **3,386**	$ 2,960	$ **9,605**	$ 8,072

13. 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:

	Three months ended September 30		Nine months ended September 30	
	2023	2022	**2023**	2022
Crude Oil	$ **21,045**	$ 34,738	$ **65,372**	$ 88,902
Natural Gas	**11,487**	16,120	**35,370**	56,813
Natural Gas Liquids	**12,882**	11,933	**32,123**	37,049
	$ **45,414**	$ 62,791	$ **132,865**	$ 182,764

At September 30, 2023, receivables from contracts with customers, which are included in trade accounts receivable, were $23,381 (December 31, 2022 - $24,005).

14. Contingency

In the normal conduct of operations, there are 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.