HIGHWOOD
ASSET MANAGEMENT LTD.

CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Highwood Asset Management Ltd.

Opinion

We have audited the consolidated financial statements of Highwood Asset Management Ltd. (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2023 and 2022, and the consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including material accounting policy information.

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, 2023 and 2022, 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 audit 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 audit 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 for the year ended December 31, 2023. 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.

<u>Assessment of the impact of estimated proved and probable oil and natural gas reserves on property, plant and equipment ("PP&E") and deferred tax asset ("DTA")</u>

Refer to consolidated financial statements Note 2(d) - Basis of preparation – management's significant accounting judgments, estimates and assumptions; Note 3(e)(ii)(iii) - Oil and natural gas interests - Depletion and depreciation and Impairment; Note 8 - Property, plant, and equipment; and Note 12 – Taxes.

The Company used estimated proved and probable oil and natural gas reserves to deplete its oil and natural gas properties, to assess for indicators of impairment or impairment reversal on each of the Company's cash generating units ("CGU's), and to determine if it is probable that future taxable profits will be sufficient to utilize the underlying deductible temporary differences and unused tax losses associated with the DTA.

The Company depletes its oil and natural gas properties, excluding transportation pipelines, using the unit of production method by reference to the ratio of production in the period to the related proved and probable oil and natural gas reserves, taking into account estimated future development costs necessary to bring those reserves into production. Depletion expense was $6,996,000 for the year ended December 31, 2023.

The Company assesses at each reporting date whether there is an indication that PP&E within the Company's CGUs may be impaired or that historical impairment may be reversed. The estimate of proved and probable oil and natural gas reserves is significant to the Company's assessment. The Company determined that there were no external or internal indicators of impairment or impairment reversal at December 31, 2023 for any of the Company's CGUs and no impairment tests were required. The Company has $189,674,000 of oil and natural gas properties at December 31, 2023.

The estimates of the Company's proved and probable oil and natural gas reserves require management to make significant assumptions to derive estimates of future cashflows related to production volumes, commodity prices, timing and amount of future development costs, and operating and transportation costs and royalty costs. In addition, the recognition of DTA is based on management's estimate of future taxable profits against which these assets can be utilized. This requires assumptions regarding future profitability and is therefore inherently subjective. The Company engages an independent third-party reserve evaluator to estimate proved and probable oil and natural gas reserves.

We identified the assessment of the impact of estimated proved and probable oil and natural gas reserves on PP&E and DTA as a key audit matter. Significant auditor judgment was required to evaluate the results of our audit procedures regarding the estimate of proved and probable oil and natural gas reserves and related cashflows. Additionally, the measurement of the DTA requires the use of professionals with specialized skills and knowledge in tax.

How our audit addressed the Key Audit Matter

Our approach to addressing the matter involved the following procedures, among others:

- We evaluated the competence, capabilities and objectivity of the independent third-party reserve evaluator engaged by the Company. The procedures performed also included evaluation of the methods and assumptions used by independent third-party reserve evaluator, and tests of the data used by independent third-party reserve evaluator.
- We evaluated the reasonableness of the significant assumptions used by management in developing the estimates of the Company's proved and probable oil and natural gas reserves, including:
  - Comparing current and past performance of the Company to management's assumptions regarding expected future production volumes, and the timing and amount of future development costs. We evaluated whether these assumptions were consistent with evidence obtained in other areas of the audit.
  - Comparing current and past performance of the Company to management's assumptions regarding the expected future operating and transportation costs and royalty costs. We evaluated whether these assumptions were consistent with evidence obtained in other areas of the audit.
  - Comparing future commodity prices used by the Company's independent third-party reserve evaluator in the preparation of the reserve estimates to forecasts published by other independent third-party reserve evaluators.
  - Evaluating changes in conditions and events affecting the Company in arriving at their significant assumptions.
- We recalculated the unit of production volumes used to determine depletion expense.
- We involved income tax professionals with specialized skills and knowledge who assisted in evaluating the application of relevant tax laws and regulations and the appropriateness of the Company's estimate of future taxable profits used in the measurement of the DTA.

<u>Evaluation of the acquisition date fair value of property, plant and equipment ("PP&E") and deferred tax asset ("DTA")</u>

Refer to consolidated financial statements Note 2(d) - Basis of preparation – Key sources of estimation uncertainty; Note 3(b) – Business combinations; and Note 6 - Acquisitions.

The Company acquired PP&E through business combinations completed on August 3, 2023. The acquisition date fair value of the acquired PP&E, in aggregate, was $139,510,000. The determination of the acquisition date fair value of the acquired PP&E involves significant estimates, including oil and natural gas reserves and the related cash flows and discount rates. In addition, the Company recognized a DTA of $44,421,000 at August 3, 2023 related to the business combinations. The determination of probable future taxable profits against which the DTA can be utilized involves significant estimates, including oil and natural gas reserves and the related cash flows.

The estimates of the Company's oil and natural gas reserves require management to make significant assumptions to derive estimates of future cashflows related to production volumes, commodity prices, timing and amount of future development costs, and operating and transportation and royalty costs. The recognition of DTA is based on management's estimate of future taxable profits against which these assets can be utilized. This requires assumptions regarding future profitability and is therefore inherently subjective. The Company engaged an independent third-party reserve evaluator to estimate proved and probable oil and natural gas reserves at December 31, 2023, which was internally adjusted by the Company's internal reserve evaluators to reflect activity back to the acquisition date.

We identified the evaluation of the acquisition-date fair value of PP&E and DTA as a key audit matter. Significant auditor judgment was required to evaluate the results of our audit procedures regarding the estimate of oil and natural gas reserves and related cash flows and the discount rates. Additionally, the evaluation of the acquisition-date fair value of PP&E through a business combination and the measurement of the DTA requires the use of professionals with specialized skills and knowledge in valuation and tax, respectively.

How our audit addressed the Key Audit Matter

Our approach to addressing the matter involved the following procedures, among others:

With respect to the estimate of oil and natural gas reserves as at the acquisition date:

- We evaluated the competence, capabilities and objectivity of the independent third-party reserve evaluator engaged by the Company. The procedures performed also included evaluation of the methods and assumptions used by the independent third-party reserve evaluator, and tests of the data used by independent third-party reserve evaluator as well as evaluation of the methods and assumptions used by management's internal reserve evaluators and tests of the data thereon.
- We evaluated the reasonableness of the significant assumptions used by management in developing the estimates, including:
  - Comparing current and past performance of the acquired oil and natural gas properties to management's assumptions regarding expected future production volumes, and the timing and amount of future development costs. We evaluated whether these assumptions were consistent with evidence obtained in other areas of the audit.
  - Comparing current and past performance of the acquired oil and natural gas properties to management's assumptions regarding the expected future operating and transportation costs and royalty costs. We evaluated whether these assumptions were consistent with evidence obtained in other areas of the audit.
  - Comparing future commodity prices used by the Company's independent third-party reserve evaluator in the preparation of the reserve estimates to forecasts published by other independent third-party reserve evaluators.
  - Evaluating changes in conditions and events affecting the acquired oil and natural gas properties to assess the adjustments or lack of adjustments made by the Company in arriving at their significant assumptions.

We involved valuation professionals with specialized skills and knowledge, who assisted in assessing the reasonableness of the Company's estimate of the acquisition date fair value of PP&E by comparing the Company's estimate to market metrics.

We assessed the measurement of the DTA as at the acquisition date for compliance with IFRS.

We involved income tax professionals with specialized skills and knowledge who assisted in evaluating the application of relevant tax laws and regulations and the appropriateness of the Company's estimate of future taxable profits used in the measurement of the DTA.

Other Information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis (MD&A), but does not include the financial statements and our auditor's report thereon.

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 audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the report prior to the date of this auditor's report. If, based on the work we have performed, 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 audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Christin Giebelhaus.

RSM Canada LLP

Chartered Professional Accountants
April 15, 2024
Calgary, Alberta

Highwood Asset Management Ltd.
Consolidated Statement of Financial Position

(all tabular amounts expressed in thousands of Canadian dollars)

	Note	As at December 31 2023	As at December 31 2022
Assets			
Current assets			
Cash		**$ 2,289**	$ 6
Accounts receivable	4, 20(a)	**18,693**	2,493
Deposits and prepaid expenses	5	**1,862**	198
Assets held for sale	8	**1,107**	-
Reclamation deposits		**-**	123
Commodity contracts	20(b)	**5,548**	
Total current assets		**29,499**	2,820
Reclamation deposits		**18**	18
Commodity contracts	20(b)	**476**	-
Exploration and evaluation assets	7	**1,461**	951
Property, plant and equipment	6, 8	**189,674**	13,033
Right-of-use assets		**739**	19
Deferred tax asset	12	**35,212**	-
Total assets		**$ 257,079**	$ 16,841
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**$ 33,570**	$ 2,390
Current portion of promissory note	10	**4,248**	
Current portion of decommissioning liabilities	11	**1,600**	-
Current portion of lease liabilities		**178**	19
Total current liabilities		**39,596**	2,409
Bank debt	9	**72,464**	-
Accounts payable and accrued liabilities	20(c)	**220**	666
Promissory note	10	**10,500**	-
Lease liabilities		**611**	-
Decommissioning liabilities	11	**29,489**	2,358
Deferred tax liability	12	**-**	711
Total liabilities		**152,880**	6,144
Shareholders' Equity			
Share capital	13	**62,440**	16,564
Warrant reserve		**1,062**	-
Share-based compensation reserve		**3,349**	2,929
Retained earnings (Deficit)		**37,348**	(8,796)
Total equity		**104,199**	10,697
Total liabilities and shareholders' equity		**$ 257,079**	$ 16,841

Commitments (note 20), Subsequent events (note 17, 20(b))

See the accompanying Notes to the Consolidated Financial Statements

Approved by the Board:

"Signed", Stephen J Holyoake, Director   *"Signed"*, Ryan Mooney, Director

Highwood Asset Management Ltd.
Consolidated Statement of Income and Comprehensive Income

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

	Note	Year ended, December 31, 2023	Year ended, December 31, 2022
Revenue			
Petroleum and natural gas sales	15	**$ 41,212**	$ 4,438
Royalties		**(10,520)**	(1,446)
Transportation pipeline revenues	15	**2,867**	3,255
Royalty and other income		**1,734**	435
		35,293	6,682
Realized loss on commodity contracts	20(b)	**(118)**	(64)
Unrealized gain on commodity contracts	20(b)	**5,863**	-
Total revenue, net of royalties and commodity contracts		**41,038**	6,618
Expenses			
Operating and transportation		**10,242**	2,140
General and administrative		**5,398**	2,775
Exploration and evaluation expenditures		**215**	185
Depletion and depreciation	8, 11	**7,309**	502
Share-based compensation	17	**420**	458
Total expenses		**23,584**	6,060
Operating income		**17,454**	558
Other income (expenses)			
Gain on disposal of assets		**238**	2,470
Gain on acquisitions	6	**37,923**	-
Gain on debt modification		**-**	122
Transaction costs	6	**(969)**	-
Finance expenses	16	**(5,189)**	(193)
Total other income (expenses)		**32,003**	2,399
Income before taxes		**49,457**	2,957
Deferred tax expense	12	**3,313**	711
Income and comprehensive income for the year		**$ 46,144**	$ 2,246
Income per share:	13(c)		
Basic		**$ 4.75**	$ 0.37
Diluted		**$ 4.67**	$ 0.37

See the accompanying Notes to the Consolidated Financial Statements

Highwood Asset Management Ltd.
Consolidated Statement of Changes in Shareholders' Equity

(all tabular amounts expressed in thousands of Canadian dollars)

	Note	Share capital, net of treasury shares	Warrant reserve	Share-based compensation reserve	Retained Earnings (Deficit)	Total equity
Balance, January 1, 2022		$ 16,310	$ -	$ 2,692	$ (11,009)	$ 7,993
Share-based compensation	17	-	-	458	-	458
Exercise of restricted share units	17	254	-	(221)	(33)	-
Income and comprehensive income for the year		-	-	-	2,246	2,246
Balance, December 31, 2022		$ 16,564	$ -	$ 2,929	$ (8,796)	$ 10,697
Balance, January 1, 2023		**$ 16,564**	**$ -**	**$ 2,929**	**$ (8,796)**	**$ 10,697**
Unit equity offering	**13, 14**	**36,540**	**1,260**	**-**	**-**	**37,800**
Unit issuance costs, net of tax benefit	**13, 14**	**(5,771)**	**(198)**	**-**	**-**	**(5,969)**
Shares issued on acquisitions	**6, 13**	**16,107**				**16,107**
Purchase of shares held in trust	**13, 17**	**(1,000)**		**-**	**-**	**(1,000)**
Share-based compensation	**17**	**-**	**-**	**420**	**-**	**420**
Income and comprehensive income for the year		**-**	**-**	**-**	**46,144**	**46,144**
Balance, December 31, 2023		**$ 62,440**	**$ 1,062**	**$ 3,349**	**$ 37,348**	**$ 104,199**

See the accompanying notes to the Consolidated Financial Statements

Highwood Asset Management Ltd.
Consolidated Statement of Cash Flows

(all tabular amounts expressed in thousands of Canadian dollars)	Note	Year Ended December 31, 2023	2022
Cash provided by (and used in)			
Operating activities			
Income for the year		**$ 46,144**	$ 2,246
Items not involving cash:			
Unrealized gain on commodity contracts	20(b)	**(5,863)**	-
Exploration and evaluation expenditures	7	**215**	185
Depletion and depreciation expense	8, 11	**7,309**	502
Finance expense	16	**891**	125
Deferred tax expense		**3,313**	711
Share-based compensation	17	**420**	458
Gain on disposal of assets		**(238)**	(2,470)
Gain on acquisitions	6	**(37,923)**	-
Gain on debt modification		**-**	(122)
Transaction costs	6	**969**	-
Cash abandonment expenditures	11	**(1,364)**	(116)
Change in long-term accounts payable and accrued liabilities		**(504)**	24
Change in non-cash working capital	18	**3,007**	(821)
Net cash from operating activities		**16,376**	722
Financing activities			
Payments of lease obligations		**(35)**	(52)
Proceeds from promissory note	22(c)	**2,800**	-
Bank debt, net of repayments	9	**73,500**	(1,075)
Debt issue costs paid	9	**(1,251)**	-
Proceeds on unit issuances	13	**35,000**	-
Unit issuance costs paid	13	**(7,752)**	-
Purchase of shares held in trust	13	**(1,000)**	-
Changes in non-cash working capital	18	**995**	-
Net cash from (used) in financing activities		**102,257**	(1,127)
Investing activities			
Additions to property, plant and equipment	8	**(17,395)**	(1,642)
Additions to exploration and evaluation assets	7	**(1,372)**	(403)
Proceeds on dispositions of property, plant and equipment		**183**	2,468
Proceeds on dispositions of exploration and evaluation assets		**75**	5
Corporate acquisitions, net of cash received	6	**(108,823)**	-
Transaction costs	6	**(969)**	-
Change in non-cash working capital	18	**11,951**	107
Net cash from (used in) investing activities		**(116,350)**	535
Change in cash		**$ 2,283**	$ 130
Cash (bank overdraft), beginning of year		**6**	(124)
Cash, end of year		**$ 2,289**	$ 6

Supplemental cash flow information 18

See the accompanying Notes to the Consolidated Financial Statements

1. REPORTING ENTITY

Highwood Asset Management Ltd. (the "Company") is a public company engaged in the ownership & oversight of various operations with a primary focus on oil and gas production, with operations also in midstream energy and land holdings of metallic minerals. The Company incorporated in Alberta, Canada on August 24, 2012. The Company conducts its operations in Western Canada, primarily in the province of Alberta. The Company's principal place of business is located at #500, 600-3rd Avenue SW, Calgary, Alberta, T2P 0G5.

The Company's common shares and warrants trade on the TSX Venture Exchange ("TSX-V") under the symbol "HAM" and "HAM.WT".

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries at December 31, 2023, Castlegate Energy Partnership, 2312882 Alberta Ltd., Cataract Creek Environmental Ltd., Renewable EV Battery Cleantech Corp. and 2339364 Alberta Ltd. Boulder Energy Ltd., Castlegate Energy Ltd. and Shale Petroleum Ltd. were acquired on August 3, 2023 and amalgamated on August 17, 2023 with the Company.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on April 15, 2024.

2. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except as otherwise stated and allowed for in accordance with IFRS. The methods used to measure fair values are described in note 3(c) and 6 related to the acquisitions, note 17 related to share-based compensation and note 20(b) related to commodity contracts.

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's and its subsidiary's functional currency.

(d) Management's significant accounting judgments, estimates and assumptions

The timely preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions based on currently available information that affect the application of accounting policies and reported amounts of assets and liabilities at the date of the statement of financial position and the reported amounts of income and expenses during the reporting period. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions and judgments are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant estimates, judgments and assumptions made by management in the preparation of these consolidated financial statements are outlined below.

Significant judgments in applying accounting policies:

The following are the significant judgments, estimates and assumptions that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in these consolidated financial statements:

(i) Valuation of oil and natural gas assets

Judgments are required to assess when internal or external impairment indicators, or reversal indicators, exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of proved and probable oil and natural gas reserves which are based on numerous assumptions including, future production volumes, commodity prices, future development costs, operating and transportation costs and royalty costs, discount rates based on market-based rates to reflect a market participants view of the risk associated with the assets, market value of undeveloped lands and other relevant assumptions.

(ii) Exploration and evaluation assets

The application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgments as to future events and circumstances as to whether economic quantities of reserves have been found in assessing economic viability and technical feasibility.

(iii) Identification of cash-generating units (CGU's)

The Company's oil and natural gas interests are aggregated into cash-generating units for both property, plant and equipment and exploration and evaluation assets, for the purpose of calculating impairment, based on their ability to generate largely independent cash flows. The classification of assets into CGU's requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, external users, shared infrastructures and the way in which management monitors the Company's operations. The Company has identified Belly River as its core CGU at December 31, 2023.

(iv) Deferred taxes

The Company follows the liability method for calculating deferred taxes. Judgment is required in the calculation of current and deferred taxes in applying tax laws and regulations, estimating the timing of the reversals of temporary differences and estimating the realizability of deferred tax assets. The Company recognizes the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences and unused tax losses will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecasted cash flows from oil and gas reserves, as determined by the external reserve evaluator and the application of existing tax laws in each jurisdiction in which the Company operates.

Key sources of estimation uncertainty:

The following are the key estimates and related assumptions concerning the sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing adjustments to the measurement of transactions and balances in the financial statements.

(i) Business combinations

Business combinations are accounted for using the acquisition method of accounting. Management estimates the fair value of the acquired identifiable net assets at the date of acquisition and specifically in identifying and valuing the exploration and evaluation assets, property, plant and equipment, decommissioning liabilities and deferred tax assets and if applicable goodwill or a gain on the transaction. The fair values assigned to the allocation of the purchase price to assets acquired and liabilities assumed is based on numerous estimates that affect the valuation of certain assets and liabilities acquired including the discount rates, estimates of oil and natural gas reserves, estimates of fair values of exploration and evaluation assets including undeveloped lands, estimate of realization of deferred tax assets, forecasted commodity prices and other factors. Changes in the assumptions or estimates used in determining the estimated acquisition date fair value of the acquired assets and liabilities could impact the allocation of the purchase price between assets and liabilities recorded on the statement of financial position and revenue and expenses or gain on acquisition recorded on the statement of income and comprehensive income.

(ii) Reserves

There are numerous uncertainties inherent in estimating oil and natural gas reserves. The assessment of reported recoverable quantities of proved and probable reserves include key estimates regarding production volumes, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, and operating and transportation costs and royalty costs for future cash flows. It also requires interpretation of geological and geophysical models in anticipated recoveries. Commodity prices can fluctuate for a variety of reasons including supply and demand fundamentals, inventory levels, exchanges rates, weather and economic and geopolitical factors. The economical, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact the carrying values of the Company's oil and natural gas properties and equipment, the calculation of depletion and depreciation, the provision for decommissioning liabilities, and recognition of deferred tax assets and may impact profit or loss as further information becomes available and as the economic environment changes.

Reserve adjustments are made annually based on actual volumes produced, the results from capital expenditure programs, revisions to previous estimates, new discoveries and acquisitions made during the year.

The reserve assessment was completed by an external third-party engineering firm for the years ended December 31, 2023 and 2022. The Company's oil and natural gas reserves are determined pursuant to National Instrument 51-101, Standards of Disclosures for Oil and Gas Activities.

(iii) Depreciation

Transportation pipelines and related equipment are depreciated, net of estimated residual values, on a straight-line basis over their estimated useful lives. Where facilities and equipment, including major components, are significant in relation to the total cost of the assets and have differing useful lives, they are depreciated separately.

The Company depletes its oil and natural gas properties using the unit of production method based on estimates of proved and probable oil and natural gas reserves. The estimates of the Company's oil and natural gas reserves used to determine depletion requires management to make significant assumptions to derive estimates of future cashflows related to future production volumes, commodity prices, future development costs, and operating and transportation costs and royalty costs. The Company engaged an independent third-party reserve evaluator to estimate oil and natural gas reserves.

(iv) Assets held for sale

Assets held for sale, along with their associated decommissioning liabilities, are classified as held for sale if it is highly probable their carrying amounts will be recovered through an asset disposition in the next twelve months. Assets held for sale are recorded at the lower of their carrying amount and the fair value less costs of disposal and are assessed for indicators of impairment prior to classification as held for sale. Any impairment or impairment reversals are recognized in net income. Assets held for sale are classified as current and are not depleted subsequent to classification.

(v) Decommissioning liabilities

The calculation of decommissioning liabilities and related accretion expense requires estimates of future remediation costs of production facilities, wells and pipelines at different stages of development and construction of assets or facilities. In most instances, removal of assets occurs many years into the future. In addition, the calculation requires assumptions regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and liability-specific discount rates to determine the present value of these cash flows. On a periodic basis, management reviews these estimates and changes, if any, are applied prospectively.

(vi) Deferred taxes

The amounts recorded for deferred tax expense and deferred tax assets are based on estimates as to the timing of the reversal of temporary differences, substantially enacted tax rates and the likelihood of tax assets being realized. The availability of tax pools and other deductions are subject to audit and interpretation by tax authorities.

(vii) Promissory note

The estimated fair value of financial liabilities, by their very nature, are subject to estimation uncertainty. The Company uses consistent valuation methodologies by third party experts to determine the fair value of financial liabilities such as those acquired in business combinations, specifically the promissory note.

(viii) Share-based payments

The amounts recorded for share-based compensation expense relating to the fair value of share-based awards issued are estimated using the Black-Scholes option pricing model including management's estimates of the future volatility of the Company's share value (based on comparison to similar companies in the oil and natural gas exploration and production industry), estimated market value of the Company's shares at grant date, expected forfeiture rates, expected lives of the options (based on general holder behaviour) and the risk-free interest rate (based on government bonds).

(ix) Commodity contracts

The amounts recorded for the fair value of commodity contracts is dependent on estimates of future commodity prices, foreign exchange rates and volatility in those prices.

3. MATERIAL ACCOUNTING POLICY INFORMATION

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements.

a) Basis of consolidation

(i) Subsidiaries

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries at December 31, 2023, Castlegate Energy Partnership, 2312882 Alberta Ltd., Cataract Creek Environmental Ltd (Incorporated in 2020), Renewable EV Battery Tech Corp. (Incorporated in 2021), and 2339364 Alberta Ltd. (Incorporated in 2021). Cataract Creek Environmental Ltd., Renewable EV Battery Tech Corp. and 2339364 Alberta Ltd. are currently inactive.

The Company has control of an investee entity when it is exposed, or has rights, to variable returns from its involvement in the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated on a line-by-line basis, recognizing all their assets, liabilities, income and expenses and recording any non-controlling interest for the portion not owned by the Company from the date on which control in obtained. Intercompany transactions and balances between the Company and its subsidiary are eliminated. Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions. The difference between fair value of any consideration paid and the acquired share of the carrying value of nets assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(ii) Joint arrangements

A portion of the Company's oil and natural gas business activities involve jointly controlled assets and are conducted under joint operating agreements. The Company has assessed the nature of its joint arrangements and determined them to be joint operations. These consolidated financial statements reflect only the Company's proportionate share of the joint operation's controlled assets and liabilities it has incurred, its share of any liabilities jointly incurred with other joint interest partners, income from the sale or use of its share of the joint operation's output, together with its share of expenses incurred by the joint operation and any expenses it incurs in relation to its interest in the joint operation and a share of production in such activities.

b) Business Combinations

Business combinations are accounted for using the acquisition method when the acquisitions of companies and/or assets meet the definition of a business under IFRS. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of acquisition. The acquired identifiable assets and liabilities and any contingent consideration are measured at their fair value at the date of acquisition. There is an option to apply a concentration test that permits a simplified assessment of whether an acquired set of activities and assets is in fact a business. The optional concentration test is met if substantially all of the fair value of the assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. An entity may make such an election separately for each transaction or other event. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

Any excess of the purchase price over the fair value of the identifiable assets and liabilities acquired is recognized as goodwill. If the cost of acquisition is less than fair value of the identifiable assets and liabilities, the difference is recorded as a gain in profit or loss. Associated transaction costs are expensed when incurred.

c) Fair value determination

A number of the Company's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining the fair values is disclosed in the notes specific to that asset or liability.

The Company classifies fair values according to the following hierarchy based on the amount of observable inputs used to value the instruments:

- Level 1: Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities.
- Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.
- Level 3: Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

There were no transfers between levels of the hierarchy during the year.

Cash

The fair value of cash approximates its carrying value due to the short-term to maturity.

Accounts receivable, deposits, accounts payable and accrued liabilities and bank debt

The fair value of accounts receivable, deposits, accounts payable and accrued liabilities and bank debt are estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. As at December 31, 2023 and 2022, the fair value of accounts receivable, deposits and accounts payable and accrued liabilities approximated their carrying value due to their short term to maturity. The fair value of bank debt approximates its carrying value as it bears a floating market rate of interest and the margin charged by the lenders is indicative of current credit spreads.

Derivatives – commodity contracts

The fair value of financial forward contracts and swaps is determined by discounting the difference between the contracted prices and published forward curves at the statement of financial position date, using the remaining contracted oil and natural gas volumes and a risk-free interest rate adjusted for the credit risk of the counterparty. The Company has used Level 2 to determine the fair value of its commodity contracts.

Promissory note

The fair value of promissory note approximate the carrying value as current credit adjusted rates approximate the effective interest rate applied to the note using Level 2 fair value measures.

Property, plant and equipment (PP&E) and assets held for sale

The fair value of PP&E recognized in a business combination is based on market value. The market value of PP&E is the estimated amount for which PP&E could be exchanged on the acquisition date between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties each acted knowledgeably, prudently and without compulsion. The fair value of oil and natural gas interests (included in PP&E) is estimated with reference to the estimate of oil and natural gas reserves expected to be derived from oil and natural gas assets based on the reserve reports prepared by independent third-party reserve evaluators. The risk-adjusted discount rate is specific to the asset with reference to general market conditions. Further information is disclosed in note 6.

Assets held for sale

Assets held for sale are recorded at the lower of their carrying amount and the fair value less costs of disposal. The fair value less costs of disposal is the estimated amount for which assets held for sale could be exchange on the acquisition between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties each active knowledgeably, prudently and without compulsion, less any associated costs of disposal.

d) Financial instruments

Classification and Measurement

On initial recognition, all financial instruments are measured at fair value. Measurement in subsequent periods depends on their context within the Company's business model and the characteristics of the contractual cash flows as described below:

Financial Assets	**Subsequent Measurement**
Cash	Amortized cost
Accounts receivable	Amortized cost
Deposits	Amortized cost
Commodity contracts	Fair value through profit or loss
Financial Liabilities	**Subsequent Measurement**
Accounts payable and accrued liabilities	Amortized cost
Bank debt	Amortized cost
Promissory note	Amortized cost
Lease liabilities	Amortized cost

The Company uses, from time to time, financial derivatives and non-financial derivatives, such as commodity contracts requiring physical delivery, to manage the price risk attributable to anticipated sales of oil and natural gas production. The Company does not enter into derivative financial derivative instruments for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, and thus has not applied hedge accounting, even though the Company considers all commodity contracts to be economic hedges. As a result, financial derivatives are classified as fair value through profit or loss and are recorded on the consolidated statement of financial position at fair value.

Transaction costs attributable to financial instruments recorded at amortized cost are included in the recognized amount of the related financial instrument and recognized over the life of the resulting financial instrument using the effective interest rate method.

Impairment

Impairment of financial assets is based on expected credit losses. The majority of the Company's accounts receivable are considered collectible within one year or less; therefore, these financial assets are not considered to have significant financing component and a lifetime expected credit loss ("ECL") is measured as the date of initial recognition of accounts receivable. The carrying amount of receivables are reduced by the amounts of ECL through an allowance account and losses are recognized as bad debt expense in profit or loss.

Based on industry experience, the Company considered financial assets 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 collection pursuits outweigh the benefits of collection, the Company derecognizes the gross carrying amount of the asset and the associated allowance from the statement of financial position.

e) Oil and natural gas interests

(i) Recognition and measurement

Exploration and evaluation assets:

Pre-license costs incurred before the Company has attained legal rights to explore an area are recognized in profit or loss.

Exploration and evaluation costs, including the costs of acquiring leases and licenses, technical services and studies, geophysical and geological activities, seismic acquisition, exploration drilling and testing are initially capitalized as exploration and evaluation assets. The costs are accumulated in cost centres by exploration area pending determination of technical feasibility and commercial viability. Assets classified as exploration and evaluation are not depleted or depreciated until after these assets are reclassified to property, plant and equipment.

Exploration and evaluation assets are tested separately from property and equipment for impairment and are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. When an exploration and evaluation asset is determined not to be technically feasible or commercially viable, or the Company decides not to continue with its activity, the unrecoverable exploration and evaluation costs are charged to profit or loss as exploration and evaluation expense.

The technical feasibility and commercial viability of extracting resources is considered to be determinable when proved and/or probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proved and/or probable reserves have been discovered. Upon determination of proved and/or probable reserves, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to property, plant and equipment.

Exchanges, swaps and farm-outs that involve only exploration and evaluation assets are accounted for at cost. Any gains or losses from the disposal of exploration and evaluation assets are recognized in profit or loss.

Property, plant and equipment:

All costs directly associated with the development and production of oil and natural gas interests are capitalized on an area-by-area basis as oil and natural gas interests if they extend or enhance the recoverable reserves of the underlying assets. Items of property, plant and equipment, which include oil and natural gas development assets, and midstream assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development costs include expenditures for areas where technical feasibility and commercial viability has been determined. These costs include property acquisitions with proved and/or probable reserves, development drilling, completion, gathering and infrastructure, decommissioning costs, transfers of exploration and evaluation assets, directly attributable overhead and includes costs incurred in developing proved and/or probable reserves and bringing on or enhancing production from such reserves. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Gains and losses on disposal of property, plant and equipment, property swaps and farm-outs, are determined by comparing the proceeds or fair value of the asset received or given up with the carrying amount of property, plant and equipment and are recognized in profit or loss. Exchanges of properties are measured at fair value, unless the transaction lacks commercial substance or fair value cannot be reliably measured. Where the exchange is measured at fair value, a gain or loss is recognized in profit or loss.

(ii) Depletion and depreciation

The net carrying value of oil and natural gas interests included in property, plant and equipment is depleted using the unit of production method by reference to the ratio of production in the period to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Oil and natural gas interests including processing facilities and well equipment are componentized into groups of assets with similar useful lives for the purposes of performing depletion calculations. Relative volumes of reserves and production are converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil. Future development costs are estimated taking into account the level of development required to produce the reserves. The estimates of reserves are reviewed by independent reserve evaluators at least annually.

Transportation pipelines are depreciated over the estimated useful life using the straight-line depreciation method. The estimated useful life of the transportation pipelines is 25 years.

Office furniture has an estimated useful life of 10 years.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(iii) Impairment

The carrying amounts of the Company's property, plant and equipment and exploration and evaluation assets are reviewed at each reporting date to determine whether there is any indication of impairment. These indicators include, but are not limited to, extended decreases in prices or margins for oil and natural gas commodities or products, a significant downward revision in estimated reserves, an upward revision in future development costs, significant decrease in fair values of undeveloped lands in close proximity to lands held by the Company or management's decision to no longer pursue certain evaluation projects. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, exploration and evaluation assets and property, plant and equipment are tested separately and are grouped 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 or cash generating units ("CGU"). Geological formation, product type, geography and internal management operations and processes are key factors considered when grouping the Company's oil and natural gas assets into CGU's.

The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs of disposal. Fair value is determined to be the amount for which the asset could be sold in an arm's-length transaction between knowledgeable and willing parties. Unless indicated otherwise, the recoverable amount used in assessing impairment losses is value in use. The Company estimates fair value less cost of disposal using discounted future net cash flows of proved and probable reserves based on forecast prices and costs and including future development costs. The cash flows are discounted at an appropriate discount rate which would be applied by a market participant. Value in use is determined by estimating the present value of the future net cash flows to be derived from the continued use of the CGU in its present form. These cash flows are discounted at a rate based on the time value of money and risks specific to the CGU. Value in use is generally computed by reference to the present value of proved and probable oil and gas reserves estimated by the Company's independent third-party reserve evaluators.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. An impairment loss in respect of property, plant and equipment recognized in prior years, is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

Right-of-use assets and lease liabilities are re-measured at each reporting period to reflect any contract modifications or reassessments that impact the remaining cash outflows under the contract.

f) Assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is met when the sale is highly probable, and the asset is available for immediate sale in its present condition. For the sale to be highly probable, management must be committed to a plan to sell the asset and an active program to locate a buyer has been initiated. The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value and the sale should be expected to be completed within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of the carrying amount and fair value less costs of disposal, with impairments recognized in profit of loss in the period measured. Non-current assets held for sale are presented in current assets and liabilities within the statement of financial position. Assets held for sale are not depleted, depreciated or amortized.

g) Decommissioning liabilities

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provisions are made for the estimated cost of site restoration and capitalized to exploration and evaluation assets or property, plant and equipment and are depleted over the useful life of the assets.

Decommissioning liabilities are measured at the present value of management's best estimate of the risk adjusted cash flows required to settle the present obligation at the statement of financial position date. The future cash flow estimates are adjusted to reflect the risks specific to the liability. Subsequent to the initial measurement, the liability is adjusted at the end of each period to reflect the passage of time using a risk-free interest rate and changes in the estimated future cash flows underlying the liability. The increase in the provision due to the passage of time is recognized as a finance cost whereas increases/decreases due to changes in the estimated future cash flows or timing are recognized as changes in the decommissioning liability and related asset. Actual costs incurred upon settlement of the decommissioning liabilities are charged against the liability to the extent the liability was established. Any differences between the recorded liability and the actual costs incurred are recorded as a gain or loss in profit or loss.

h) Revenue recognition

Revenue from the sale of crude oil, natural gas and natural gas liquids is recorded when control of the product is transferred to the buyer based on the consideration specified in the contracts with customers. This usually occurs when the product is physically transferred at the delivery point agreed upon in the contract and legal title to the product passes to the customer (often at terminals, pipelines, or other transportation methods).

The Company evaluates its arrangements with third parties and partners to determine if the Company acts as the principal or as an agent. In making this evaluation, the Company considers if it obtains control of the product delivered or services provided, which is indicated by the Company having the primary responsibility for the delivery of the product or rendering of the service, having the ability to establish prices or having inventory risk.

If the Company acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net-basis, only reflecting the fee, if any, realized by the Company from the transaction.

Fees charged to other entities for royalties, use of pipelines, and processing facilities are evaluated by management to determine if these originate from contracts with customers or from incidental or collaborative arrangements. Fees charged to other entities that are from contracts with customers are recognized in revenue when the related services are provided. Generally, as the Company performs the distinct services stipulated under the contract, it does not have any remaining performance obligations to its customer for those services.

i) Taxes

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit (loss) nor taxable profit (loss). In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

j) Earning per share

Basic earnings per common share is computed by dividing the income for the period by the weighted average number of common shares outstanding during the period. Diluted earnings per common share amounts are calculated by giving effect to the potential dilution that would occur if contracts to issue common shares were exercised, fully vested, or converted to common shares. The treasury stock method is used to determine the dilutive effect of dilutive instruments such as RSU's, DSU's, PSU's, warrants, options, where it is assumed that the proceeds received from the exercise price of in-the-money dilutive instruments are used to repurchase common shares.

k) Equity

Share capital

Common shares are classified as equity.

Share issue costs

Costs, such as, but not limited to, professional, consulting, regulatory that are directly attributable to financing transactions are recorded as deferred share issue costs until the financing transactions are completed, if the completion of the transaction is considered likely; otherwise they are expensed as incurred. Share issue costs are charged to share capital or warrant reserve when the related shares or warrants are issued. Deferred share issue costs relating to financing transactions that are not completed are charged to profit or loss.

Unit issuance

Warrants issued in combination with common shares as part of a unit are evaluated and classified under IAS 32 Financial Instruments: Presentation. Equity classification applies to instruments where a fixed amount of cash (or liability) denominated in the issuer's functional currency is exchanged for a fixed number of shares (often referred to as the "fixed-or-fixed" criteria). In determining the allocation of the fair value of each equity instrument within the unit the Company uses the relative fair value method whereby the fair value is proportionately allocated. The fair value of the components of the units is based on the closing share/warrant price on the date of issuance. Amounts attributable to warrants issued are presented in the statement of financial position as warrant reserve, net of issue costs. Upon exercise of warrants, the consideration paid by the holder together with the amount previously recognized in warrant reserve is recorded as an increase to share capital. Upon forfeiture of warrants, the amounts previously recognized remain in the warrant reserve.

Share-based payments

Stock options, restricted share units ("RSU's"), performance share units ("PSU's") and deferred share units ("DSU's") granted to directors, officers, employees and consultants of the Company are accounted for using the fair value method under which compensation or other equity costs are recorded based on the estimated fair value of stock options, RSU's, DSU's granted using the Black-Scholes option pricing model. The fair value of the PSUs is determined on grant date based on the dollar value granted. The Company measures share based payments to non-employees at the fair value of the goods or services received at the date of receipt of the goods or services. If the fair value of the goods or services cannot be measured reliably, the value of the options granted will be used, measured using the Black-Scholes option pricing model.

Under the fair value method, the compensation amount attributable to stock options, RSU's, PSU's and DSU's granted are measured at fair value at the date of grant and expensed on a tranche-by-tranche basis over the vesting period, with a corresponding increase to share-based compensation reserve. Upon exercise of the stock options RSU's, PSU's and DSU's, consideration paid by the holder together with the amount previously recognized in share-based compensation reserve is recorded as an increase to share capital. The Company incorporates an estimated forfeiture rate at the date of grant and recognizes the effect of differences in non-vested stock option, RSU, PSU and DSU forfeitures in the period forfeiture occurs.

l) Foreign currency

Transactions in foreign currencies are translated to Canadian dollars at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the period end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognized in profit or loss.

m) Changes in accounting pronouncements

New accounting standards

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. The adoption of this amendment did not have a material impact on the consolidated financial statements.

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 accounting estimate that results from new information or new developments is not the correction of an error. The adoption of this amendment did not have a material impact on the consolidated financial statements.

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. The adoption of this amendment did not have a material impact on the consolidated financial statements.

Future changes in accounting standards

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.

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

Amendments to IAS 1 Presentation of Financial Statements

Effective January 1, 2024, amendments to IAS 1 clarify how condition 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.

IFRS Sustainability Disclosure Standard
Emissions, carbon and other regulations impacting climate and climate-related matter are constantly evolving. With respect to the environmental, social and governance ("ESG") and climate reporting, the International Sustainability Standards Board has issued an IFRS Sustainability Disclosure Standard with the aim to develop sustainability disclosure standards that are globally consistent, comparable and reliable. In addition, the Canadian Securities Administrators have issued a proposed National Instrument 51-107 Disclosure of Climate-related Matters. The impact and cost to comply with these standards, and others that may be developed or evolve over time, has not yet been quantified.

4. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	December 31, 2023	December 31, 2022
Petroleum and natural gas marketers	**$ 15,133**	$ 754
Joint interest partners	**2,731**	1,504
Road use receivable	**454**	488
Royalty and other income	**33**	143
Other	**686**	260
Allowance for doubtful accounts	**(344)**	(656)
	$ 18,693	$ 2,493

5. DEPOSITS AND PREPAID EXPENSES

Deposits and prepaid expenses are comprised of the following:

	December 31, 2023	December 31, 2022
Deposits	**$ 1,003**	$ 93
Prepaid expenses	**859**	105
	$ 1,862	$ 198

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

6. ACQUISITIONS

Boulder Acquisition

On August 3, 2023, the Company closed the corporate acquisition (the “Boulder Acquisition”) to acquire 100% of the issued and outstanding shares of Boulder Energy Ltd. (“Boulder”), a privately held oil and gas producer focused on light oil production in Alberta. The Boulder Acquisition was completed for total consideration of $97.8 million, comprised of $75.1 million cash, $14.0 million promissory note and 1,500,000 common shares of the Company. The fair value of the common shares, being $5.80 per common share was based on the recent unit issuance completed by the Company immediately prior to the completion of the acquisition. The Boulder Acquisition was recognized as a business combination in accordance with IFRS 3 – Business Combinations. The Company acquired Boulder for its producing cash flows.

The purchase price, based on managements estimates of fair values, is as follows:

Net assets of Boulder Acquisition		
Accounts receivable	$	5,623
Deposits and prepaid expenses		1,353
Accounts payable and accrued liabilities		(6,069)
Property, plant and equipment (oil and natural gas properties)		94,000
Decommissioning liability		(1,465)
Deferred tax asset		39,054
Total net assets acquired	$	132,496
Consideration for the Boulder Acquisition:		
Cash consideration	$	75,077
Promissory note (note 10)		14,000
Shares issued (1,500,000 common shares at $5.80 per share) (note 13)		8,700
Purchase consideration transferred	$	97,777
Gain on acquisition	$	34,719

Results from operations for Boulder are included in the Company’s consolidated financial statements from the closing date of the transaction on a prospective basis. The fair values attributable to property, plant and equipment were determined principally from the estimate of oil and natural gas reserves and the related cash flows prepared by independent third-party reserve evaluators at December 31, 2023 and internally adjusted to reflect activity to August 3, 2023. The oil and natural gas reserves and related cash flows were discounted at a rate based on what a market participant would have paid. The fair value of decommissioning obligations was estimated using a credit adjusted risk free rate of 10.28%.

The determination of the fair value of assets acquired and liabilities assumed was previously reported based on the information available at the previous reporting period. As of the date of the audited annual consolidated financial statements, the allocation of the purchase price with respect to assets acquired and liabilities assumed has been updated to reflect new information, whereby management has now completed a full and detailed valuation of the oil and natural gas properties acquired. As a result, property, plant and equipment increased $14.3 million, decommissioning liability decreased $2.7 million and deferred tax asset increased $17.9 million. In addition, the Company has recognized a bargain gain as the total net assets acquired are greater than the consideration paid related to the significant tax pools acquired.

Acquisition related costs totalling $256 thousand have been excluded from consideration paid and were recognized as transaction costs on the consolidated statement of income and comprehensive income for the year ended December 31, 2023, when the costs were incurred.

Petroleum and natural gas sales of $24.8 million and operating income of $13.0 million are included in the consolidated statement of income and comprehensive income for the Boulder Acquisition since the closing date of August 3, 2023.

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

Had the Boulder Acquisition occurred on January 1, 2023, the incremental petroleum and natural gas sales and operating income for the year ended December 31, 2023 would have been as follows:

	Incremental Amount
Petroleum and natural gas sales	$ 55,800
Operating Income	$ 26,000

Incremental amounts are not necessarily representative of future revenues and operations.

Castlegate Acquisition

On August 3, 2023, the Company closed the corporate acquisition (the "Castlegate Acquisition") to acquire 100% of the issued and outstanding shares of Castlegate Energy Ltd. ("Castlegate"), a privately held oil and gas producer focused on light oil production in Alberta. The Castlegate Acquisition was completed for total consideration of $37.6 million, comprised of cash. The Castlegate Acquisition was recognized as a business combination in accordance with IFRS 3 – Business Combinations. The Company acquired Castlegate for its producing cash flows.

The purchase price, based on managements estimates of fair values, is as follows:

Net assets of Castlegate Acquisition		
Cash	$	1,723
Accounts receivable		3,485
Deposits and prepaid expenses		50
Accounts payable and accrued liabilities		(2,392)
Current tax liability		(128)
Property, plant and equipment (oil and natural gas properties)		42,010
Decommissioning liability		(187)
Deferred tax liability		(6,968)
Total net assets acquired	$	37,593
Consideration for the Castlegate Acquisition:		
Cash consideration	$	37,593
Purchase consideration transferred	$	37,593

Results from operations for Castlegate are included in the Company's consolidated financial statements from the closing date of the transaction on a prospective basis. The fair values attributable to property, plant and equipment were principally determined from the estimate of oil and natural gas reserves and the related cash flows prepared by independent third-party reserve evaluators at December 31, 2023 and internally adjusted to reflect activity to August 3, 2023. The oil and natural gas reserves and related cash flows were discounted at a rate based on what a market participant would have paid. The fair value of decommissioning obligations was estimated using a credit adjusted risk free rate of 10.28%.

Acquisition related costs totalling $149 thousand have been excluded from consideration paid and were recognized as transaction costs on the consolidated statement of income and comprehensive income for the year ended December 31, 2023, when the costs were incurred.

Petroleum and natural gas sales of $11.4 million and net income of $7.4 million are included in the consolidated statement of Income and comprehensive income for the Castlegate Acquisition since the closing date of August 3, 2023.

Had the Castlegate Acquisition occurred on January 1, 2023, the incremental petroleum and natural gas sales and operating income for the year ended December 31, 2023 would have been as follows:

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

	Incremental Amount
Petroleum and natural gas sales	$ 25,600
Operating income	$ 18,700

Incremental amounts are not necessarily representative of future revenues and operations.

Shale Acquisition

On August 3, 2023, the Company closed the corporate acquisition (the "Shale Acquisition") to acquire 100% of the issued and outstanding shares of Shale Petroleum Ltd. ("Shale"), a privately held oil and gas producer focused on gas and liquids production in Alberta. The Shale Acquisition was completed for total consideration of $7.4 million, comprised 1,277,025 common shares of the Company. The fair value of the common shares, being $5.80 per common share was based on the recent unit issuance completed by the Company immediately prior to the completion of the acquisition. In connection with the Shale Acquisition, a shareholder of Shale agreed to purchase a minimum amount of $10 million of subscription receipts under the Offering (note 13). The Shale Acquisition was recognized as a business combination in accordance with IFRS 3 – Business Combinations. The Company acquired Shale for its producing cash flows.

The purchase price, based on managements estimates of fair values, is as follows:

Net assets of Shale Acquisition		
Cash	$	2,123
Accounts receivable		393
Deposits and prepaid expenses		292
Accounts payable and accrued liabilities		(677)
Property, plant and equipment (oil and natural gas properties)		3,500
Decommissioning liability		(387)
Deferred tax asset		5,367
Total net assets acquired	$	10,611
Consideration for the Shale Acquisition:		
Shares issued (1,277,025 common shares at $5.80 per share) (note 13)	$	7,407
Purchase consideration transferred	$	7,407
Gain on acquisition		3,204

Results from operations for Shale are included in the Company's consolidated financial statements from the closing date of the transaction on a prospective basis. The fair values attributable to property, plant and equipment were principally determined from the estimate of oil and natural gas reserves and the related cash flows prepared by independent third-party reserve evaluators at December 31, 2023 and internally adjusted to reflect activity to August 3, 2023. The oil and natural gas reserves and related cash flows were discounted at a rate based on what a market participant would have paid. The fair value of decommissioning obligations was estimated using a credit adjusted risk free rate of 10.28%.

The determination of the fair value of assets acquired and liabilities assumed was previously reported based on the information available at the previous reporting period. As of the date of the audited annual consolidated financial statements, the allocation of the purchase price with respect to assets acquired and liabilities assumed has been updated to reflect new information, whereby management has now completed a full and detailed valuation of the oil and natural gas properties acquired. As a result, property, plant and equipment increased $341 thousand, decommissioning liability decreased $862 thousand and deferred tax asset increased $2.0 million. In addition, the Company has recognized a bargain gain as the total net assets acquired are greater than the consideration paid related to the significant tax pools acquired.

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

Acquisition related costs totalling $187 thousand have been excluded from consideration paid and were recognized as transaction costs on the consolidated statement of Income and comprehensive income for the year ended December 31, 2023, when the costs were incurred.

Petroleum and natural gas sales of $1.5 million and operating income of $483 thousand are included in the consolidated statement of Income and comprehensive income for the Shale Acquisition since the closing date of August 3, 2023.

Had the Shale Acquisition occurred on January 1, 2023, the incremental petroleum and natural gas sales and operating income for the year ended December 31, 2023 would have been as follows:

	Incremental Amount
Petroleum and natural gas sales	$ 4,200
Operating income	$ 1,300

Incremental amounts are not necessarily representative of future revenues and operations.

7. EXPLORATION AND EVALUATION ASSETS

Evaluation and evaluation assets are comprised of the following:

	December 31, 2023	December 31, 2022
Balance, beginning of year	**$ 951**	$ 738
Additions	**1,372**	403
Dispositions	**(21)**	(5)
Transfers to property, plant and equipment (note 8)	**(626)**	-
Land lease expiries	**(215)**	(185)
Balance, end of year	**$ 1,461**	$ 951

Exploration and evaluation assets include undeveloped lands, mineral permits and unproved properties where management has not fully evaluated for technical feasibility and commercial viability.

Additions during the years ended December 31, 2022 and 2023 mainly related to undeveloped upstream oil and gas lands.

During the year ended December 31, 2023, the Company determined that $626 thousand (2022 - $nil) of exploration and evaluation assets were technically feasible and commercially viable, resulting in these costs being transferred to plant, property and equipment.

During the year ended December 31, 2023, the Company expensed certain costs previously capitalized as exploration and evaluation assets as the lease term of undeveloped lands expired and/or management has no intentions to pursue exploration of these lands in the amount of $215 thousand (2022 - $185 thousand). These amounts have been included as exploration and evaluation expense in the statement of income and comprehensive income.

Impairment

At December 31, 2023 or 2022, there were no indicators of impairment or impairment reversals.

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

8. PROPERTY, PLANT AND EQUIPMENT

COSTS		December 31, 2023		December 31, 2022
Balance, beginning of year	$	**20,984**	$	**19,639**
Change in decommissioning liabilities (note 11)		**27,288**		**(297)**
Additions		**17,395**		**1,642**
Acquisitions (note 6)		**139,510**		**-**
Transferred from exploration and evaluation assets (note 7)		**626**		**-**
Transferred to assets held for sale		**(1,182)**		**-**
Balance, end of year	$	**204,621**	$	**20,984**
ACCUMULATED DEPLETION, DEPRECIATION AND IMPAIRMENT				
Balance, beginning of year	$	**(7,951)**	$	**(7,168)**
Depletion and depreciation		**(7,071)**		**(783)**
Transferred to assets held for sale		**75**		**-**
Balance, end of year	$	**(14,947)**	$	**(7,951)**
Net book value	$	**189,674**	$	**13,033**

During the year ended December 31, 2023, the Company listed its previous office space for sale and believes the sale will occur within twelve months. Therefore, these assets have been reclassified as assets held for sale at December 31, 2023. The held for sale assets have no associated liabilities.

During the year ended December 31, 2023, the Company capitalized $270 thousand (2022 - $nil), respectively, of general and administrative costs directly related to exploration and drilling activities.

During the year ended December 31, 2022, the Company sold assets for net proceeds of $2.2 million. The associated cost base of the assets sold was $nil and a gain on disposal of assets of $2.2 million was recognized in the statement of income and comprehensive income.

Depletion

Future development costs of $349.3 million (2022 - $3.19 million) associated with the development of the Company's proved plus probable reserves were included in the calculation of depletion for the year ended December 31, 2023. Future development costs are only included for CGUs with production.

Impairment and Impairment Reversal

The Company assesses many factors when determining if an impairment test should be performed. At December 31, 2023, the Company conducted an assessment of impairment indicators for the Company's CGUs. In performing the review, management determined that the continued strength in commodity pricing from December 31, 2022 and/or from the date of the acquisitions (note 6) and the impact this has on the economic performance of the Company's CGUs resulted in no indicators of impairment at December 31, 2023.

At December 31, 2022, the Company conducted an assessment of impairment indicators for the Company's CGUs. In performing the review, management determined that the continued strength in commodity pricing from December 31, 2021 and the impact this has on the economic performance of the Company's CGUs resulted in no indicators of impairment at December 31, 2022.

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9. BANK DEBT

	December 31, 2023	December 31, 2022
Credit facilities		
Syndicated loan facility	**$ 73,500**	$ -
Operating facility	**-**	-
Total draw, end of year	**$ 73,500**	$ -
Debt issue costs incurred	**(1,251)**	-
Amortization of debt issue costs (note 16)	**215**	
Balance credit facilities, end of year	**$ 72,464**	$ -

On August 3, 2023, the Company entered into a senior secured extendible revolving credit facilities in the aggregate principal amount of up to $100 million (the "New Credit Facilities") with a syndicate of banks. On December 19, 2023, the Company executed an Amended and Restated Credit Agreement (the "ARCA"). The ARCA is comprised of senior secured extendible revolving credit facilities in the aggregate principal amount of up to $100 million with a syndicate of banks. The ARCA is comprised of revolving credit facilities consisting of a $10 million operating facility and a syndicated loan facility to a maximum of $90 million. The ARCA allows the Company to enter into Letters of Credit up to a maximum of $20 million.

The ARCA bears interest at the Bank's prime rate plus an applicable margin of 250bps to 500bps on prime rate loans and 350bps to 650bps on margin on SOFR loans, margin on CORRA loans and issue fees for letters of credit, as determined by reference to the Company's consolidated total debt to EBITDA ratio (as defined in the credit facility agreement). At December 31, 2023, the Company had an effective interest rate of prime plus 4.75% per annum on prime-based loans under the ARCA.

The ARCA has a revolving period of 364 days, extendible annually at the request of the Company, subject to approval of the lenders thereunder. If not extended, the ARCA is anticipated to automatically convert to a term loan and all outstanding obligations will be repayable one year after the expiry of the revolving period and the Company will not be entitled to any further drawdowns. The borrowing base for the ARCA is $100 million, and is subject to semi-annual redeterminations based on the production profile of the borrowing base properties and other relevant matters as determined by the lenders, including a review of the Company's annual reserve report, prepared by the Company's independent qualified reserves evaluator and internally prepared updates thereto. If after a borrowing base determination or re-determination, a borrowing base shortly exists, the Company would be required to repay any amounts borrowed in excess of the borrowing base within 60 days. The ARCA is secured by a first priority security interest including a general security agreement and floating charge demand debenture over all the Company's present and future property, assets and undertakings. The next semi-annual redetermination is scheduled for May 31, 2024. The ARCA include operating restrictions on the Company, including (among other things), limitations on acquisitions, distributions, dividends and hedging arrangements. The ARCA includes industry standard reporting requirements and financial covenants. With respect to financial covenants, the Company is required to maintain a minimum Liability Management Rating, as defined by the Alberta Energy Regulator, of 2.00:1:00. The maximum utilization allowed on the New Credit Facility is 90% of the total commitments of the lenders, with the total commitment being $100 million at December 31, 2023. At December 31, 2023, the Company is in compliance with this requirement.

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The Company was required to enter into commodity contracts with an aggregate notional quantity of at least 65% of the next 18 months expected production from proved developed producing properties, on a boe/day basis, at or in excess of US$70.00/bbl (or the Canadian equivalent) for a period of 18 months from the execution of the New Credit Facilities, after which, the Company is required to enter into commodity contracts with an aggregate notional quantity of at least 50% of the next 6 months expected production and rolling monthly from proved developed producing properties, on a boe/day basis, at or in excess of US$60.00/bbl (or the Canadian equivalent). At December 31, 2023, the Company is in compliance with this requirement. In addition, the Company shall not enter into commodity contracts where the volume exceeds (a) 75% of expected production for the 12 months following the month in which the agreement is entered into (b) 65% of expected production for the 13 through to 24 months following the month in which the agreement is entered into (c) 50% of expected production for the 25 through 36 months following the month which the agreement is entered into and (d) 30% of the expected production for the 37 to 48 months which the agreement is entered into.

At December 31, 2023, the Company had approximately $9.5 million ($2.5 million Canadian dollars and $5.3 million in United Stated dollars) in issued and outstanding letters of credit to suppliers of brokered commodities while credit was being established.

The Company had a $1.0 million operating facility, which was repaid and extinguished in conjunction with the New Credit Facilities. This operating facility bore interest at the Bank's prime rate of bankers' acceptance discount rates plus an applicable margin of 300bps to 550bps on prime rate loans and 400bps to 650bps on stamping fees related to bankers' acceptances, determined by reference to the Company's net debt to cash flow ratio (as defined in the credit facility agreement). Interest on the credit facility was due monthly. This credit facility was secured by a $100.0 million debenture with a fixed and floating charge over all the assets of the Company.

10. PROMISSORY NOTE

	December 31, 2023	December 31, 2022
Principal balance	**$ 14,000**	$ -
Accrued interest (note 16)	**748**	-
Balance, end of year	**$ 14,748**	$ -
Current portion	**$ 4,248**	$ -
Non-current portion	**$ 10,500**	$ -

The Promissory Note was issued in conjunction with the Boulder Acquisition (note 6). The Promissory Note was issued to a related party and an officer of the counterparty is on the Board of Directors of the Company. The Promissory Note matures on July 1, 2025 and provides for payments, equal to $3.5 million each, commencing October 1, 2024 and thereafter on January 1, 2025, April 1, 2025 and July 1, 2025, with the outstanding principal (if any) due in full on maturity. The Promissory Note bears interest at 13% per annum payable quarterly on October 1, 2024, January 1, 2025, April 1, 2025 and July 1, 2025; all payments/repayments (of both principal and interest) under the Promissory Note are subject to certain terms and conditions under the ARCA (note 9). All obligations under the Promissory Note are fully and unconditionally personally guaranteed by Joel MacLeod, the Executive Chairman of the Company, in an amount limited to $3 million. The Promissory Note is secured by a Security Interest on the assets of the Company, subordinated to the ARCA.

11. DECOMMISSIONING LIABILITIES

The Company's decommissioning liabilities result from its ownership interest in oil and natural gas properties including well sites, pipelines and facilities. The total decommissioning liability is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The Company has estimated the net present value of the decommissioning liabilities to be $31.1 million as at December 31, 2023 (2022 - $2.36 million) based on an undiscounted and uninflated total future liability of $47.3 million (2022 - $4.04 million) and discounted using a long-term risk-free rate of 3.02% (2022 – 3.28%) and an inflation rate of 2.00% (2022 – 2.09%). The expected timing of decommissioning expenditures extends to 2074.

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

The following table summarizes changes in the decommissioning liabilities:

	December 31, 2023	December 31, 2022
Balance, beginning of year	**$ 2,358**	$ 3,059
Change in discount rate	**8,701**	(564)
Change in cash flow estimates(1)	**758**	(63)
Government subsidy for abandonment expenditures	**-**	420
Acquisitions (note 6)	**19,878**	-
Additions	**161**	-
Abandonment expenditures	**(1,364)**	(536)
Accretion expense (note 16)	**597**	42
Balance, end of year	**$ 31,089**	$ 2,358
Expected to be settled within one year	**$ 1,600**	$ -
Expected to be settled beyond one year	**$ 29,489**	$ 2,358

1 Change in estimates for the year ended December 31, 2023 and 2022 is a result of changes in estimated future abandonment and reclamation costs and the timing thereof.

The decommissioning liability of the Boulder Acquisition, Castlegate Acquisition and Shale Acquisition on closing was determined using the credit adjusted risk free rate of 10.28%, resulting in the acquisition fair value of $2.0 million (note 6). Subsequent to the Acquisitions, the associated decommissioning liabilities were recalculated using a risk free rate of 3.85%, resulting in an increase of $17.8 million that has been recorded as an adjustment to property, plant and equipment.

The risk-free rate used in the calculation of the net present value has a significant impact on the carrying value of decommissioning liabilities. A 1% increase in the risk-free rate would decrease the decommissioning liability by approximately $10.4 million.

12. TAXES

a) Deferred tax asset (liability)

At December 31, 2023, a deferred tax asset of $35.2 million (2022 – liability $711 thousand) has been recognized in the consolidated financial statements. The following table provides a continuity of the components of the deferred tax asset/liability:

	Balance, January 1, 2023	Recognized in income	Recognized in statement of financial position	Balance, December 31, 2023
Exploration and evaluation assets, property, plant and equipment and assets held for sale	$ 762	$ (9,056)	$ 13,503	$ 5,209
Decommissioning liabilities	542	6,139	469	7,150
Commodity contracts	-	(1,386)	-	(1,386)
Financing fees	-	(134)	1,783	1,649
Other	(22)	13	-	(9)
Non-capital loss carryforwards	598	1,537	23,904	26,039
Deferred tax asset not recognized	(2,591)	(426)	(423)	(3,440)
Deferred tax asset (liability)	$ (711)	$ (3,313)	$ 39,236	$ 35,212

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

	Balance, January 1, 2022	Recognized in income	Balance, December 31, 2022
Exploration and evaluation assets and property, plant and equipment	$ 1,245	$ (483)	$ 762
Decommissioning liabilities	704	(162)	542
Other	-	(22)	(22)
Non-capital loss carryforwards	716	(118)	598
Deferred tax asset not recognized	(2,665)	74	(2,591)
Deferred tax liability	$ -	$ (711)	$ (711)

b) Deferred tax expense

The amount for deferred tax expense in the consolidated financial statements results from applying the combined federal and provincial tax rates to the Company's income before taxes as follows:

	Year Ended December 31, 2023	2022
Income before taxes	**$ 49,457**	$ 2,957
Combined federal and provincial tax rates	**23.0%**	23.0%
Expected tax expense	**11,375**	680
Differences from:		
Other	**137**	-
Stock based compensation	**97**	105
Gain on acquisition	**(8,722)**	-
Unrecognized deferred tax asset	**426**	-
Previously unrecognized deferred tax asset	**-**	(74)
Total tax expense	**$ 3,313**	$ 711
Total tax expense is comprised of		
Current	**$ -**	$ -
Deferred	**3,313**	711
Total tax expense	**$ 3,313**	$ 711

Total non-capital losses available to the Company are approximately $113 million and expire between 2028 and 2043.

A deferred tax asset was not recognized in respect of temporary differences related to successor tax pools of $15.0 million (2022 - $11.3 million) as there is not sufficient certainty regarding future utilization.

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

13. SHARE CAPITAL

a) Authorized

Unlimited number of voting common shares and unlimited number of preferred shares issuable in series.

b) Issued and outstanding common shares

	Number of Shares (000's)	Stated Value
Balance, December 31, 2021	6,014	$ 16,310
Issued on exercise of restricted share units	23	254
Balance, December 31, 2022	6,037	16,564
Common shares issued for cash proceeds from equity financing	5,833	33,833
Common shares issued for cash from private placement	467	2,707
Common shares issued as Boulder Acquisition consideration (note 6)	1,500	8,700
Common shares issued as Shale Acquisition consideration (note 6)	1,277	7,407
Purchase of shares held in trust for performance share units (note 17)	(179)	(1,000)
Cash share issue costs (net of tax recovery)	-	(5,771)
Balance, December 31, 2023	14,935	$ 62,440

On July 27, 2023, the Company closed a marketed offering of subscription receipts (the "Offering"). Pursuant to the Offering, the Company issued and sold a total of 5,833,333 subscription receipts ("Subscription Receipts") at a price of $6.00 per Subscription Receipt for gross proceeds of approximately $35 million. Each Subscription Receipt represented the right of the holder to receive, upon closing of Castlegate Acquisition, Boulder Acquisition and Shale Acquisition (collectively, the "Acquisitions") (note 6), without payment of additional consideration and without further action, one unit of the Company ("Offered Unit"). Each Offered Unit was comprised of one common share of the Company ("Common Share") and one-half of one Common Share purchase warrant (each full warrant, a "Warrant") with each Warrant exercisable into one Common Share (each a "Warrant Share") at an exercise price of $7.50 per Warrant Share for a period of 36 months from the issuance date of the Warrants.

On August 3, 2023, concurrently with the closing of the acquisitions (note 6) each subscription receipt of the Company issued pursuant to the Offering was exchanged for one Common Share of the Company and one-half of one Warrant with each full Warrant exercisable into one Warrant Share at an exercise price of $7.50 per Warrant Share until August 3, 2026. As result of the Offering, 5,833,333 common shares and 2,916,667 Warrants were issued. Officers and directors received 469,178 common shares and 234,589 Warrants in the Offering.

On August 3, 3023 the Company closed a private placement purchase of $2.8 million in units of the Company (the "Private Placement Units") comprised of one Common Share and one-half of one common share purchase warrant (the "Private Placement"). The Private Placement Units were issued on terms identical to the terms of the Offered Units that are issuable pursuant to the terms of the Subscription Receipts under the Offering. The Private Placement Units purchased pursuant to the Private Placement (including the common shares and Warrants comprising such Private Placement Units, and the Warrant Shares issuable upon the exercise of such Warrants) are subject to a statutory hold period until December 4, 2023 and are held by an officer of the Company. As a result of the Private Placement, 466,666 common shares and 233,333 Warrants were issued. The proceeds from the Private Placement were used to settle a promissory note (note 22) with an existing shareholder, a related party, whom the shares were issued to.

The unit cost of $6.00 per unit was allocated $5.80 per Common Share and $0.20 per one-half of one Warrant.

Total transaction costs, net of tax recovery, associated with the equity financing are approximately $6.0 million, with $5.8 million recorded as share issue costs and $0.2 million recorded as warrant issue costs.

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

c) Net Income per share

	December 31, 2023			December 31, 2022		
	Net Income	**Common shares (000's)**	**Income per share**	Net Income	Common shares (000's)	Income per share
Income - basic	**$ 46,144**	**9,723**	**$ 4.75**	$ 2,246	6,014	$ 0.37
Dilutive effect of options		**152**	**-**		74	-
Income - diluted	**$ 46,144**	**9,875**	**$ 4.67**	$ 2,246	6,088	$ 0.37

For the year ended December 31, 2023 157,000 options and 3,150,000 warrants (2022 – 85,033 options) were excluded as they were anti-dilutive. The weighted average number of common shares is adjusted for treasury shares purchased and held by the trustee.

14. WARRANTS

Issued and outstanding	Number of Warrants (000's)	Exercise Price
Balance, December 31, 2022 and 2021	-	$ -
Warrants issued from equity financing (note 13)	2,917	7.50
Warrants issued from private placement (note 13)	233	7.50
Balance, December 31, 2023	3,150	$ 7.50
Exercisable, December 31, 2023	3,150	$ 7.50

The Company issued 3,150,000 warrants in connection with the Offering and the Private Placement. Each warrant entitles the holder thereof to purchase one Common Share at an exercise price of $7.50 and a term of three years. At December 31, 2023, the remaining life of the warrants is 2.59 years.

15. REVENUE

Petroleum and natural gas sales:

The Company sells its production pursuant to variable-price contracts. The transaction price for variable price contracts is based on the commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula can be either fixed or variable, depending the contract terms. Commodity prices are based on market indices that are determined on a monthly or daily basis. Revenue is recognized when a unit of production is delivered to the customer and control of the product transferred.

The following table summarizes the Company's product sales.

	Year Ended December 31,	
	2023	2022
Oil	**$ 35,496**	$ 4,438
Natural Gas Liquids	**2,869**	-
Natural Gas	**2,847**	-
Total	**$ 41,212**	$ 4,438

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

16. FINANCE EXPENSE

	Year ended December 31,	
	2023	2022
Interest on bank debt	**$ 3,594**	$ 65
Interest on promissory note (note 10)	**748**	-
Amortization of debt issue costs (note 9)	**215**	-
Interest income	**(44)**	-
Accretion of decommissioning liabilities (note 11)	**597**	42
Other	**79**	86
Total	**$ 5,189**	$ 193

17. SHARE-BASED PAYMENTS

The Incentive Plans of the Company limit the total number of common shares that may be issued on exercise of Options, RSU's, PSU's and DSU's outstanding at any time under the specific Incentive Plans to 10% of the number of common shares issued and outstanding (less the number of common shares reserved for issuance under any other share-based compensation arrangement of the Company) for Options, 240,000 for RSU's and 1% of the number of common shares issued and outstanding for DSU's.

A forfeiture rate of 0% was used when recording share-based compensation for all share-based payments as it is expected that all officers, directors, employees and consultants will continue with the Company over the vesting period, and or, all share-based awards will be exercised. Stock price on date of grant was determined by the price of common shares issued on the date of grant and based on publicly available information. Expected volatility was determined based on an average of volatilities of similar publicly traded entities in Company's peer group.

Options

The Company has a stock option plan for officers, directors, employees and consultants ("the Option Plan"). Under the Option Plan, the Board of Directors sets the exercise price, expiry date and vesting terms for each option grant provided that no options will be granted at a discount to market prices and no option will have a term exceeding ten years.

A summary of the stock options issued and outstanding as at December 31, 2023 are as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2021	149	$ 11.69
Granted	27	11.00
Outstanding, December 31, 2022	176	11.58
Expired	(19)	5.30
Granted	65	6.00
Outstanding, December 31, 2023	222	10.48
Exercisable, December 31, 2023	148	$ 12.42

The weighted average contractual term of all outstanding options at December 31, 2023 is 2.15 years.

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

Below is a summary of outstanding stock options:

Grant Date	Term	Number of Options ('000)	Exercise Price
January 23, 2019	5 Years	72	$ 9.00
October 31, 2019	5 Years	21	$ 18.00
August 27, 2020	5 Years	37	$ 16.50
May 30, 2022	5 Years	27	$ 11.00
August 28, 2023	5 Years	65	$ 6.00

On August 28, 2023, the Company granted 65,056 options at an exercise price of $6.00 per option. The options granted vest 1/3 on each of August 3, 2024, August 3, 2025 and August 3, 2026 and have a five-year term.

The fair value of the stock options granted were estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	August 28, 2023	May 30, 2022
Number of options (#000's)	65	27
Exercise price ($/share)	$ 6.00	$ 11.00
Stock price on grant date	$ 5.33	$ 10.00
Expected life (years)	5.0	5.0
Risk-free interest rate	4.02%	2.66%
Expected volatility	80%	80%
Option fair value (per option)	$ 3.43	$ 6.36
Estimated forfeiture rate	0%	0%
Expected dividend yield	0%	0%

On January 4, 2024, the Company granted 9,000 options at an exercise price to $6.00 per option. The options granted vest 1/3 on each of January 4, 2025, January 4, 2026 and January 4, 2027 and have a five-year term.

On April 15, 2024, the Company granted 277,000 options at an exercise price to $6.00 per option. The options granted vest 1/3 on each of April 15, 2025, April 15, 2026 and April 15, 2027 and have a five-year term.

Restricted Share Units ("RSU's")

The Company has a RSU plan, for officers, directors, employees and consultants "the RSU Plan". The RSU Plan is administered by the Corporate Governance, Environmental, Health and Safety Committee which has the power, subject to the limits imposed by the RSU Plan, to: (i) award RSUs; (ii) determine the terms under which RSUs are granted; (iii) interpret the RSU Plan and adopt, amend and rescind such administrative guidelines and other rules and regulations relating to the RSU Plan; and (iv) make all other determinations and take all other actions in connection with the implementation and administration of the RSU Plan.

A summary of RSU's issued and outstanding at December 31, 2023 is as follows:

	Number of RSU's
Outstanding, December 31, 2021	133
Exercised	(24)
Expired	(75)
Granted	27
Outstanding, December 31, 2022	61
Granted	59
Outstanding, December 31, 2023	120
Exercisable, December 31, 2023	52

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

The weighted average contractual term of all outstanding RSU's at December 31, 2023 is 1.71 years.

Below is a summary of outstanding RSU's.

Grant Date	Expiry Date	Number of RSU's (000's)
August 27, 2020	December 31, 2023	34
May 30, 2022	December 31, 2024	27
August 28, 2023	December 31, 2026	59

The RSU's that were scheduled to expire December 31, 2023, were automatically extended under section 4.9(d) of the RSU plan. Subsequent to December 31, 2023, 33,600 RSUs were exercised resulting in 33,600 common shares being issued.

On August 28, 2023, the Company granted 59,379 RSU's exercisable for no consideration. The RSU's granted vest 1/3 on each of August 28, 2024, August 28, 2025 and August 28, 2026 and expire on December 31, 2026.

During the year ended December 31, 2022, 23,334 RSU's were exercised. Share capital was increased by the fair value of the RSU's on the day they were exercised totalling $254 thousand. The weighted average share price at the date of exercise was $10.86/share. Contributed surplus was decreased by $221 thousand, representing the value of exercised RSU's recorded as stock-based compensation. As the fair value of the RSU's exceeded the amount in contributed surplus, there was a corresponding charge to retained earnings of $33 thousand.

On May 30, 2022, the Company granted 26,500 RSU's exercisable for nominal consideration. The RSU's granted vest 1/3 on each of December 31, 2022, December 31, 2023 and December 31, 2024 and expire on December 31, 2025.

The fair value of the RSU's issued and granted were estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	August 28, 2023	May 30, 2022
Number of RSU's (#000's)	59	27
Exercise price ($/share)	$ -	$ -
Stock price on grant date	$ 5.33	$ 10.00
Expected life (years)	3.33	3.5
Risk-free interest rate	4.02%	2.66%
Expected volatility	80%	80%
Option fair value (per option)	$ 5.33	$ 10.00
Estimated forfeiture rate	0%	0%
Expected dividend yield	0%	0%

On January 4, 2024, the Company granted 4,400 RSU's exercisable for no consideration. The RSU's granted vest 1/3 on each of January 4, 2025, January 4, 2026 and January 4, 2027 and expire on December 31, 2027.

On April 15, 2024, the Company granted 130,125 RSU's exercisable for no consideration. The RSU's granted vest 1/3 on each of April 15, 2025, April 15, 2026 and April 15, 2027 and expire on December 31, 2027.

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

Performance Share Units ("PSUs")

The Company has a PSU plan, for officers, employees and consultants "the PSU Plan". The PSU Plan is administered by the Corporate Governance and Compensation Committee, subject to the limits imposed by the PSU Plan. Under the PSU Plan, the Board of Directors sets the vesting terms for each PSU grant.

The fair value of the PSUs is determined on grant date based on the dollar value granted. PSUs issued to participants are held by the plan trustee and held in trust until such time the PSU's vest. Common shares, from time to time, are acquired in the open market by an independent trustee and are held in trust for the potential future settlement of award values and are netted out of share capital, including the cumulative purchase cost, until they are distributed for future settlement. For the year ended December 31, 2023, the trustee purchased 178,650 common shares for a total cost of $1.0 million and as of December 31, 2023 the trustee held 178,650 common shares to be distributed under the PSU plan. PSU's will be settled in equity in the amount equal to the fair value of the PSU on the date they vest. The fair value is expensed over the vesting term and represents the fair value for the graded vested portion of the PSUs outstanding.

Below is a summary of outstanding PSU's, based on their historical fair value at grant date:

Balance, December 31, 2022	$ -
Granted	609
Balance, December 31, 2023	$ 609

On August 28, 2023, the Company granted $609 thousand worth of PSU's. The PSU's granted vest on August 3, 2026, subject to the sole discretion of the Board of Directors.

On January 4, 2024, the Company granted $22 thousand worth of PSU's. The PSU's granted vest on January 4, 2027, subject to the sole discretion of the Board of Directors.

On April 15, 2024, the Company granted $802 thousand worth of PSU's. The PSU's granted vest on April 15, 2027, subject to the sole discretion of the Board of Directors.

Deferred Share Units ("DSUs")

The Company has a DSU plan for directors ("the DSU Plan"). The DSU Plan is administered by the Corporate Governance and Compensation Committee. The Corporate Governance and Compensation Committee authorizes the amounts of DSU's to be granted to each of the participants for each calendar year, and the date that the grant becomes effective, with DSU's vesting one year following grant date.

A summary of DSU's issued and outstanding at December 31, 2023 is as follows:

	Number of DSU's
Outstanding, December 31, 2022	-
Granted	20
Outstanding, December 31, 2023	20
Exercisable, December 31, 2023	-

The weighted average contractual term of all outstanding DSU's at December 31, 2023 is 2.66 years.

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

Below is a summary of outstanding RSU's.

Grant Date	**Expiry Date**	**Number of DSU's (000's)**
August 28, 2023	August 27, 2026	20

On August 28, 2023, the Company granted 20,000 DSU's exercisable for no consideration. The DSU's granted vest on August 3, 2024.

The fair value of the DSU's issued and granted were estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	August 28, 2023
Number of DSU's (#000's)	20
Exercise price ($/share)	$ -
Stock price on grant date	$ 5.33
Expected life (years)	3.00
Risk-free interest rate	4.02%
Expected volatility	80%
Option fair value (per option)	$ 5.33
Estimated forfeiture rate	0%
Expected dividend yield	0%

On April 15, 2024, the Company granted 20,000 DSU's exercisable for no consideration. The DSU's granted vest on April 15, 2025.

Share-based Compensation

	Year ended December 31,	
	2023	2022
Options	**$ 125**	$ 180
RSUs	**185**	278
PSUs	**71**	-
DSUs	**39**	-
Total share-based compensation expense	**$ 420**	$ 458

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

18. SUPPLEMENTAL CASH FLOWS INFORMATION

Changes in non-cash working capital is comprised of:

	Year ended December 31, 2023	2022
Source/(use) of cash		
Accounts receivable	**$ (6,700)**	$ (311)
Deposits and prepaid expenses	**(130)**	(14)
Reclamation deposits	**123**	-
Accounts payable and accrued liabilities	**22,660**	(719)
Changes in non-cash working capital	**$ 15,953**	$ (1,044)

	Year ended December 31, 2023	2022
The above figure relates to:		
Operating activities	**$ 3,007**	$ (1,091)
Financing activities	**995**	-
Investing activities	**11,951**	47
Changes in non-cash working capital	**$ 15,953**	$ (1,044)
Interest paid	**$ 3,594**	$ 65
Taxes paid (recovered)	**$ -**	$ -

19. COMMITMENTS

At December 31, 2023, the Company had the following commitments with respect to accounts payable and accrued liabilities with long-term payment plans:

Minimum future payments for accounts payable and accrued liabilities with long-term payment plans:

	Within 1 year	After 1 year but not more than 5 years	Total
Accounts payable and accrued liabilities	$ 438	$ 232	$ 670

20. FINANCIAL RISK MANAGEMENT

The Board of Directors has the overall responsibility for the establishment and oversight and execution of the Company's risk management framework. The Board of Directors has implemented and monitors compliance with risk management policies. 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 employs risk management strategies and policies to ensure that any exposures to risk are in compliance with the Company's business objectives. While the Board of Directors has the overall responsibility for the Company's risk management framework, the Company's management has the responsibility to administer and monitor those risks.

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as:

- credit risk;
- market risk; and
- liquidity risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk. During the year, the Company executed a program to mitigate commodity price risk as required under the New Credit Facilities and ARCA (note 9).

(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. The maximum exposure to credit risk at year end is as follows:

	December 31, 2023	December 31, 2022
Cash	**$ 2,289**	$ 6
Accounts receivable	**18,693**	2,493
Deposits	**1,003**	93
Commodity contracts	**6,024**	-
Reclamation deposits	**18**	141
Total	**$ 28,027**	$ 2,733

Cash

Cash consist of amounts on deposit with Canadian chartered banks. The Company manages exposure of cash, if any, by selecting financial institutions with high credit ratings.

Accounts receivable:

Substantially all of the Company's oil and natural gas production and pipeline transportation revenues are marketed under standard industry terms. Receivables from oil and natural gas marketers are normally collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with credit worthy purchasers. Joint interest receivables are typically collected within one to three months of the joint interest bill being issued to the partner. Approximately 35% of accounts receivable is due from one counterparty, which is a reputable multi-national entity with nominal credit risk.

The Company's accounts receivable are aged as follows:

	December 31, 2023	December 31, 2022
Current (less than 90 days)	**$ 16,986**	$ 1,111
Past due (more than 90 days)	**1,707**	1,382
Total	**$ 18,693**	$ 2,493

As at December 31, 2023, management believes all receivables net of provision for expected credit losses of $344 thousand (2022 - $656 thousand) will be collected.

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

Commodity contracts:

All of the Company's commodity contracts are with Canadian chartered banks as the counterparty. The Company manages the exposure of commodity contract risk, if any, by selecting financial institutions with high credit ratings.

(b) Market risk

Market risk is the risk that changes in market conditions, such as commodity prices, foreign exchange rates and interest rates, will affect the Company's cash flow, income or the value of its financial instruments. The objective of the Company's market risk management is to manage and control market risk exposures within acceptable parameters, while maximizing the Company's return.

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company does not sell or transact in any foreign currency. The Company's financial instruments are only indirectly exposed to currency risk as the underlying commodity prices in Canada for oil and natural gas are impacted by changes in exchange rates between the Canadian and United States dollar. At December 31, 2023 the Company had $1.4 million in account receivable and $4.0 million accounts payable denominated in United States dollars (2022 - $nil).

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 subject to interest rate risk related to its exposure to interest rate fluctuations on its ARCA, which bears a floating rate of interest. A 1% interest rate increase or decrease on the full amount outstanding of $73.5 million (note 7) would decrease or increase net income by approximately $566 thousand for the year ended December 31, 2023. Fluctuations in interest rates may affect the fair value of financial assets and liabilities bearing interest at fixed rates.

Commodity price risk

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar but also North American and global economic events that dictate the levels of supply and demand. The nature of the Company's operations results in exposure to fluctuations in commodity prices. The Company's production is sold using "spot" pricing with prices fixed at the time of transfer of custody or on the basis of a monthly average market price.

The Company has the following commodity contracts outstanding at December 31, 2023 as required under the ARCA (note 9):

Swaps:

Product	Notional Volume	Term	Contract Price (CAD/GJ)	Index
Natural Gas	4,600GJ/day	Sept 1, 2023 to March 31, 2025	$ 3.00 - $3.05	AECO
Natural Gas	2,000GJ/day	April 1, 2025 to March 31, 2027	$ 3.15 - $3.25	AECO

Product	Notional Volume	Term	Contract Price (CAD/bbl)	Index
Crude Oil	1,300bbls/day	January 1, 2024 to March 31, 2024	$ 103.55 - $114.90	WTI - NYMEX
Crude Oil	1,250bbls/day	April 1, 2024 to June 30, 2024	$ 101.40 - $110.95	WTI - NYMEX
Crude Oil	1,200bbls/day	July 1, 2024 to September 30, 2024	$ 99.30 - $108.00	WTI - NYMEX
Crude Oil	1,150bbls/day	October 1, 2024 to December 31, 2024	$ 97.45 - $105.50	WTI - NYMEX
Crude Oil	870bbls/day	January 1, 2025 to March 31, 2025	$ 95.55 - $103.15	WTI - NYMEX

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The commodity contracts had a total fair value at December 31, 2023 of an asset of $6.02 million (2022 – $nil). The corresponding unrealized gain for the year ended December 31, 2023 were $6.02 million, (2022 – $nil) and is included in the statement of income and comprehensive income. Total realized losses for the year ended December 31, 2023 were $118 thousand (2022 – $nil) and are also included in the statement of income and comprehensive income.

For the year ended December 31, 2023, a $0.10/bbl increase/decrease in oil prices and a $0.10/GJ in natural gas prices would have a negative/positive impact on net income of approximately $315 thousand.

Subsequent to December 31, 2023, the Company entered into the following commodity contracts:

Swaps:

Product	Notional Volume	Term	Contract Price (CAD/GJ)	Index
Natural Gas	2,500GJ/day	April 1, 2025 to December 31, 2026	$ 3.13 - $ 3.40	AECO
Natural Gas	1,000GJ/day	January 1, 2027 to March 31, 2027	$ 3.40	AECO

Product	Notional Volume	Term	Contract Price (CAD/bbl)	Index
Crude Oil	200bbls/day	April 8, 2024 to June 30, 2024	$ 115.50	WTI - NYMEX
Crude Oil	200bbls/day	March 1, 2024 to December 31, 2024	$ 100.25 - $ 101.05	WTI - NYMEX
Crude Oil	100bbls/day	April 1, 2024 to September 30, 2025	$ 95.75	WTI - NYMEX
Crude Oil	100bbls/day	October 1, 2024 to September 30, 2025	$ 95.50	WTI - NYMEX
Crude Oil	100bbls/day	November 1, 2024 to July 31, 2025	$ 95.00	WTI - NYMEX
Crude Oil	400bbls/day	April 1, 2025 to September 30, 2025	$ 94.00 - $ 95.00	WTI - NYMEX
Crude Oil	200bbls/day	May 1, 2025 to October 31, 2025	$ 102.50 - $ 104.00	WTI - NYMEX
Crude Oil	300bbls/day	May 1, 2025 to December 31, 2025	$ 105.00 - $106.00	WTI - NYMEX

Product	Notional Volume	Term	Contract Price (CAD/bbl)	Index
MSW Differential	100bbls/day	March 1, 2024 to December 31, 2024	$ 5.05	ICE-1A-SW
MSW Differential	100bbls/day	April 1, 2024 to September 30, 2025	$ 4.75	ICE-1A-SW
MSW Differential	500bbls/day	April 1, 2024 to December 31, 2024	$ 3.78 - $4.70	ICE-1A-SW
MSW Differential	200bbls/day	June 1, 2024 to December 31, 2025	$ 3.35	ICE-1A-SW

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with the financial liabilities as they become due. The Company's financial liabilities, excluding commodity contracts consist of accounts payable and accrued liabilities, promissory note and bank debt, all of which are due within a year and lease liabilities and long-term accounts payable and accrued liabilities. A portion of accounts payable and accrued liabilities is being paid on a long-term payment plan as disclosed in note 19.

At December 31, 2023, the Company had a working capital deficit of $8.5 million, excluding current portion of decommissioning obligations. The Company expects to repay its financial liabilities in the normal course of operations and to fund future operational and capital requirements through operating cash flows and available capacity on the Company's ARCA. At December 31, 2023, the Company has classified $220 thousand of accounts payable and accrued liabilities as long-term (2022 - $666 thousand) as the vendor has agreed to a payment plan that extends beyond 12 months. At December 31, 2023, the Company has classified $10.5 million of promissory notes as long-term as payments extend beyond 12 months. The maturity date of the bank debt is August 2, 2025; therefore, bank debt has been classified as long-term.

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

The Company monitors liquidity risk through cost control, debt and equity management policies. Strategies include continuously monitoring of forecast and actual cash flows, financing activities and available credit available under the ARCA. The nature of the oil and gas industry is very capital intensive. The Company prepares annual capital expenditure budgets and utilizes authorizations for expenditures and capital committees for projects to manage capital expenditures. The Company may need to conduct asset sales, equity issues or issue debt if liquidity risk increases in a given period. Liquidity risk may increase as a result of potential revisions to the Company's ARCA, which is subject to semi-annual reviews. Company also maintains and monitors a certain level of cash flow which is used to partially finance all operating and capital expenditures. The Company believes it has sufficient funds and operating cash flows to meet foreseeable obligations by actively monitoring its credit facilities and coordinating payment and revenue cycles each month. However, there are no assurances that the lender will maintain the borrowing base at the current level, which may result in a borrowing base shortfall. If the Company cannot generate sufficient funds to meet the borrowing base shortfall it would constitute an event of default under the loan agreement and the bank could demand immediate repayment of the outstanding loan amount. The Company actively monitors covenants associated with the credit facilities and was in compliance at December 31, 2023.

The following table details the Company's financial liabilities, excluding commodity contracts, as at December 31, 2023:

	Total	**<1 year**	**1-3 years**	**4-5 years**
Accounts payable and accrued liabilities	**$ 33,790**	$ 33,570	$ 220	$ -
Bank debt	**72,464**	-	72,464	-
Promissory note	**14,748**	4,248	10,500	-
Lease liabilities	**789**	178	349	262
Total financial liabilities	**$ 121,791**	$ 37,996	$ 83,533	$ 262

21. CAPITAL MANAGEMENT

The Company manages its capital with the following objectives:

- To ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities; and
- To maximize shareholder return through enhancing share value.

The Company's capital structure may be adjusted by issuing or repurchasing equity and/or debt instruments, modifying capital spending programs and disposing of assets. Management continually reviews its approach to capital management, particularly when there are major changes to the Company such as major acquisitions and believes this approach is appropriate. As a result of the recent acquisitions, the Company has revised its key capital management measures to include adjusted EBITDA, adjusted funds flow, free funds flow and net debt, which are calculated and described below. These capital management measures are not standardized and therefore may not be comparable with the calculation of similar measures by other entities.

Net Debt

The Company considers net debt a key capital management measure in assessing the Company's liquidity.

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

The following table outlines the Company's calculation of net debt:

	December 31, 2023	December 31, 2022
Adjusted current assets[1]	**$ 23,951**	$ 2,820
Adjusted current liabilities[1]	**(37,818)**	(2,390)
Adjusted working capital	**(13,867)**	430
Bank debt	**(72,464)**	-
Promissory note – long term portion	**(10,500)**	-
Other long-term obligations	**(220)**	(666)
Total net debt	**$ (97,051)**	$ (236)

Note 1: Adjusted current assets and current liabilities excludes commodity contracts, current portion of lease liabilities and current portion of decommissioning obligations.

Adjusted EBITDA

The Company considers adjusted EBITDA to be a key capital management measure as it demonstrates the Company's profitability, operating and financial performance with respect to cash flow generation, adjusted for interest related to its capital structure. Adjusted EBITDA is calculated by adjusting cash flows from operating activities for changes in non-cash working changes and interest.

Adjusted funds flow

The Company considers adjusted funds flow to be a key capital management measure as it demonstrates the Company's ability to generate required funds to manage production levels and fund future capital investment. The Company calculates adjusted funds flow as adjusted EBITDA less net interest and adjusting for decommissioning expenditures incurred.

Free funds flow

The Company considers free funds flow to be a key capital management measure as it is used to measure liquidity and efficiency of the Company by measuring the funds available after capital investment available for debt repayment, to pursue acquisitions and shareholder distributions. The Company calculates free funds flow as adjusted funds flow less expenditures on property, plant and equipment and exploration and evaluation assets (collectively, the "capital expenditures").

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

The following table outlines the Company's calculation of adjusted EBITDA, adjusted funds flow and free funds flow to cash flow from operating activities:

	Year Ended December 31, 2023	2022
Cash flow from operating activities	**$ 16,376**	$ 722
Change in non-cash working capital	**(3,007)**	821
Net interest[1]	**4,298**	65
Adjusted EBITDA	**17,667**	1,608
Decommissioning expenditures	**1,364**	116
Net interest[1]	**(4,298)**	(65)
Adjusted funds flow	**14,733**	1,659
Net capital expenditures	**(18,509)**	428
Free funds flow	**$ (3,776)**	$ 2,087

Note 1: Net interest is interest on bank debt and promissory note less interest income

The Company makes adjustments to capital employed by monitoring economic conditions and investment opportunities. The Company generally relies on credit facilities and cash flows from operations to fund capital requirements. To maintain or modify its capital structure, the Company may issue new common or preferred shares, issue new subordinated debt, renegotiate existing debt terms, or repay existing debt. The Company is not currently subject to any externally imposed capital requirements, other than covenants on its ARCA (note 9).

22. RELATED PARTY TRANSACTIONS

(a) Transactions

Except as discussed elsewhere, the Company had the following transactions with related parties:

The Company received legal advisory from a company where a partner is Corporate Secretary of the Company. During the year ended December 31, 2023, the legal expenses incurred were $1.5 million (2022 - $111 thousand). For the year ended December 31, 2023, $354 thousand were recorded as transaction costs, $823 thousand were recorded as unit issuance costs, $145 thousand were recorded as debt issuance costs and $162 thousand were recorded as general and administrative expenses. As at December 31, 2023, $47 thousand (2022 - $51 thousand) is included within accounts payable with respect to these charges.

At December 31, 2023, $270 thousand (2022 - $nil) was included in accounts payable with respect to transaction costs incurred in the Boulder Acquisition which are due to a related party where an officer of the related party is a director of the Company.

The Company received engineering consultant service from a company controlled by a director of the Company. During the year ended December 31, 2023, costs of $67 thousand were recorded as additions to property, plant and equipment. As at December 31, 2023, $25 thousand (2022 - $nil) is included within accounts payable with respect to these charges.

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

(b) **Key management compensation**

The remuneration of the key management personnel of the Company, which includes directors and officers is set out below in aggregate:

	2023	2022
Salaries, bonuses and consulting fees	**$ 1,523**	$ 713
Share based compensation	**361**	327
Total key management compensation	**$ 1,884**	$ 1,040

Total personnel expenses for employees, directors and management including share-based compensation was $2.6 million for the year ended December 31, 2023 (2022 - $1.4 million) of which $2.2 million (2022 - $942 thousand) has been included in general and administrative expenses, $54 thousand (2022 - $nil) has been included in operating and transportation expenses and $420 thousand (2022 - $458 thousand) was recorded to share-based compensation

(c) Promissory note

During the second quarter of 2023, the Company received funds of $2.8 million from a shareholder and in the third quarter of 2023 issued a promissory note to the same shareholder in the amount of $2.8 million. The promissory note bore interest at 9.5% per annum, accruing daily, with any accrued interest to be added to the principal balance of the promissory note. The amount of interest paid was nominal. The promissory note was secured by a general security agreement. The promissory note was due on demand and could be repaid by the Company at any time. The Company received the required regulatory approval for the promissory note. The promissory note was subordinate to the credit facility. During the third quarter of 2023, the promissory note was extinguished in conjunction with a private placement with the same shareholder, see note 13.

23. SEGMENT INFORMATION

During the year ended December 31 2023, in conjunction with the Boulder Acquisition, Castlegate Acquisition and Shale Acquisition, the Company has changed the composition of its reportable segments to a single segment. The prior periods have not been restated as the information is presented in the consolidated statement of financial position and consolidated statement of income and comprehensive income.