HIGHWOOD ASSET MANAGEMENT LTD.
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023

(unaudited)

Highwood Asset Management Ltd.
Condensed Interim Consolidated Statement of Financial Position

(all tabular amounts expressed in thousands of Canadian dollars)

(unaudited)

As at	Note	September 30, 2023	December 31, 2022
Assets			
Current assets			
Cash		**$ 2,868**	$ 6
Accounts receivable	3, 17(a)	**12,503**	2,493
Deposits and prepaid expenses		**1,706**	198
Assets held for sale	6	**1,107**	-
Reclamation deposits		**-**	123
Total current assets		**18,184**	2,820
Reclamation deposits		**18**	18
Exploration and evaluation assets	5	**1,985**	951
Property, plant and equipment	6	**158,512**	13,033
Right-of-use assets		**375**	19
Deferred tax asset		**19,342**	-
Total assets		**$ 198,416**	$ 16,841
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**$ 20,853**	$ 2,390
Commodity contracts	17(b)	**2,833**	-
Current portion of decommissioning liabilities	9	**2,000**	-
Current portion of lease liabilities		**91**	19
Total current liabilities		**25,777**	2,409
Bank debt	7	**72,333**	-
Accounts payable and accrued liabilities	17(c)	**405**	666
Promissory note	8	**14,289**	-
Commodity contracts	17(b)	**988**	-
Lease liabilities		**295**	-
Decommissioning liabilities	9	**27,653**	2,358
Deferred tax liability		**-**	711
Total liabilities		**141,740**	6,144
Shareholders' Equity			
Share capital	10	**62,892**	16,564
Warrant reserve	11	**1,062**	-
Share-based compensation reserve	14	**3,159**	2,929
Deficit		**(10,437)**	(8,796)
Total equity		**56,676**	10,697
Total liabilities and shareholders' equity		**$ 198,416**	$ 16,841

Commitments (note 16), Subsequent events (note 17)

See the accompanying Notes to the Condensed Interim Consolidated Financial Statements

Approved by the Board:

"Signed", Stephen J Holyoake, Director

"Signed", Ryan Mooney, Director

Highwood Asset Management Ltd.

Condensed Interim Consolidated Statement of Income (Loss) and Comprehensive Income (Loss)

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

(unaudited)

	Note	Three Months Ended, September 30, **2023**	Three Months Ended, September 30, 2022	Nine Months Ended, September 30, **2023**	Nine Months Ended, September 30, 2022
Revenue					
Petroleum and natural gas sales	12	**$ 15,894**	$ 1,135	**$ 17,580**	$ 3,411
Royalties		**(3,829)**	(362)	**(4,347)**	(1,092)
Transportation pipeline revenues	12	**774**	842	**2,203**	2,486
Royalty and other income		**206**	50	**860**	50
		13,045	1,665	**16,296**	4,855
Realized gain (loss) on commodity contracts	17(b)	**(354)**	11	**(354)**	(64)
Unrealized gain (loss) on commodity contracts	17(b)	**(3,821)**	44	**(3,821)**	-
Total revenue, net of royalties and commodity contracts		**8,870**	1,720	**12,121**	4,791
Expenses					
Operating and transportation		**3,293**	519	**4,595**	1,599
General and administrative		**1,776**	577	**3,514**	1,967
Exploration and evaluation expenditures		**-**	101	**-**	210
Depletion and depreciation	6, 9	**2,814**	62	**3,267**	223
Share-based compensation	14	**110**	139	**230**	331
Total expenses		**7,993**	1,398	**11,606**	4,330
Operating income		**877**	322	**515**	461
Other income (expenses)					
Gain on disposal of assets		**173**	67	**227**	2,414
Gain on debt modification		**-**	-	**-**	122
Transaction costs	6	**(287)**	-	**(658)**	-
Finance income and expenses, net	13	**(1,998)**	(42)	**(2,087)**	(153)
Total other income (expenses)		**(2,112)**	25	**(2,518)**	2,383
Income (loss) before taxes		**(1,235)**	347	**(2,003)**	2,844
Deferred tax recovery (expense)		**221**	(106)	**362**	(660)
Income (loss) and comprehensive income (loss) for the period		**$ (1,014)**	$ 241	**$ (1,641)**	$ 2,184
Income (loss) per share:	10(c)				
Basic		**$ (0.09)**	$ 0.04	**$ (0.21)**	$ 0.36
Diluted		**$ (0.09)**	$ 0.04	**$ (0.21)**	$ 0.35

See the accompanying Notes to the Condensed Interim Consolidated Financial Statements

Highwood Asset Management Ltd.

Condensed Interim Consolidated Statement of Changes in Shareholders' Equity

(all tabular amounts expressed in thousands of Canadian dollars)

(unaudited)

	Note	Share capital	Warrant reserve	Share-based compensation reserve	Deficit	Total equity
Balance, January 1, 2022		$ 16,310	$ -	$ 2,692	$ (11,009)	$ 7,993
Share-based compensation	14	-	-	331	-	331
Income and comprehensive income for the period		-	-	-	2,184	2,184
Balance, September 30, 2022		$ 16,310	$ -	$ 3,023	$ (8,825)	$ 10,508
Balance, January 1, 2023		**$ 16,564**	**$ -**	**$ 2,929**	**$ (8,796)**	**$ 10,697**
Unit equity offering	**10, 11**	**36,540**	**1,260**	**-**	**-**	**37,800**
Unit issuance costs, net of tax benefit	**10, 11**	**(5,744)**	**(198)**	**-**	**-**	**(5,942)**
Shares issued on acquisitions	**4, 10**	**16,107**				**16,107**
Purchase of shares held in trust	**10, 14**	**(575)**		**-**	**-**	**(575)**
Share-based compensation	**14**	**-**	**-**	**230**	**-**	**230**
Loss and comprehensive loss for the period		**-**	**-**	**-**	**(1,641)**	**(1,641)**
Balance, September 30, 2023		**$ 62,892**	**$ 1,062**	**$ 3,159**	**$ (10,437)**	**$ 56,676**

See the accompanying notes to the Condensed Interim Consolidated Financial Statements

Highwood Asset Management Ltd.
Condensed Interim Consolidated Statement of Cash Flows

(all tabular amounts expressed in thousands of Canadian dollars) (unaudited)	Note	Three Months Ended, September 30, 2023	Three Months Ended, September 30, 2022	Nine Months Ended, September 30, 2023	Nine Months Ended, September 30, 2022
Cash provided by (and used in)					
Operating activities					
Income (loss) for the period		**$ (1,014)**	$ 241	**$ (1,641)**	$ 2,184
Items not involving cash:					
Unrealized (gain) loss on commodity contracts		**3,821**	(44)	**3,821**	-
Exploration and evaluation expenditures		**-**	101	**-**	210
Depletion and depreciation expense	6, 9	**2,814**	62	**3,267**	223
Finance expense	13	**370**	32	**434**	99
Deferred tax (recovery) expense		**(221)**	106	**(362)**	660
Share-based compensation	14	**110**	139	**230**	331
Gain on disposal of assets		**(173)**	(67)	**(227)**	(2,414)
Gain on debt modification		**-**	-	**-**	(122)
Transaction costs	4	**287**	-	**658**	-
Cash abandonment expenditures	9	**(78)**	(85)	**(120)**	(85)
Change in long-term accounts payable and accrued liabilities		**(55)**	(127)	**(307)**	149
Change in non-cash working capital	15	**2,699**	(100)	**3,557**	(1,091)
Net cash from operating activities		**8,560**	258	**9,310**	144
Financing activities					
Payments of lease obligations		**(6)**	(6)	**(18)**	(47)
Proceeds from promissory note	19(b)	**-**	-	**2,800**	-
Bank debt, net of repayments	7	**73,500**	125	**73,500**	(950)
Debt issue costs paid	7	**(1,218)**	-	**(1,218)**	-
Proceeds on unit issuances	10	**35,000**	-	**35,000**	-
Unit issuance costs paid	10	**(6,989)**	-	**(7,717)**	-
Purchase of shares held in trust	10	**(575)**	-	**(575)**	-
Changes in non-cash working capital	15	**2,549**	-	**2,970**	-
Net cash from (used) in financing activities		**102,261**	119	**104,742**	(997)
Investing activities					
Additions to property, plant and equipment	6	**(2,289)**	(1,366)	**(2,975)**	(1,509)
Additions to exploration and evaluation assets	5	**(628)**	(160)	**(1,055)**	(174)
Proceeds on dispositions of property, plant and equipment		**173**	67	**173**	2,413
Proceeds on dispositions of exploration and evaluation assets		**-**	-	**75**	-
Corporate acquisitions, net of cash received	4	**(108,816)**	-	**(108,816)**	-
Transaction costs	4	**(287)**	-	**(658)**	-
Change in non-cash working capital	15	**1,615**	38	**2,066**	47
Net cash from (used in) investing activities		**(110,232)**	(1,421)	**(111,190)**	777
Change in cash		**$ 589**	$ (1,044)	**$ 2,862**	$ (76)
Cash (bank overdraft), beginning of period		**2,279**	844	**6**	(124)
Cash (bank overdraft), end of period		**$ 2,868**	$ (200)	**$ 2,868**	$ (200)

Supplemental cash flow information 15

See the accompanying Notes to the Condensed Interim 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 operations and 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 condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries at September 30, 2023, Castlegate Energy Partnership, Cataract Creek Environmental Ltd., Renewable EV Battery Cleantech Corp. and 2339364 Alberta Ltd.

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on November 29, 2023.

2. BASIS OF PREPARATION

(a) Statement of compliance

These condensed interim consolidated financial statements of the Company have been prepared in accordance with International Accounting Standards (IAS) 34, “Interim Financial Reporting”, using accounting policies consistent with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Certain information and disclosures normally included in the annual financial statements prepared in accordance with IFRS have been condensed or omitted.

The condensed interim consolidated financial statements should be read in conjunction with the Company’s audited annual consolidated financial statements as at and for the year ended December 31, 2022 and the notes thereto.

The condensed interim consolidated financial statements have been prepared on a historical cost basis, except as detailed in the accounting policies disclosed in note 3 of the Company’s audited consolidated financial statements for the year ended December 31, 2022. All accounting policies and methods of computation followed in the preparation of these condensed interim consolidated financial statements are consistent with those of the previous financial year, except those disclosed in note 2(c).

(b) Use of estimates and judgments

The timely preparation of the Condensed Interim 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.

A full list of significant estimates and judgments can be found in note 2(d) of the Company’s annual consolidated financial statements for the year ended December 31, 2022. There have been no changes during the three and nine months ended September 30, 2023 related to significant estimates and judgments used in the preparation of the financial statements, except those disclosed in note 2(d).

(c) Accounting policies

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 when the related shares are issued. Deferred share issue costs relating to financing transactions that are not completed are charged to expenses.

Finance expense

Finance expense is comprised of interest expense on borrowings, financing fees, accretion of the discount on decommissioning liabilities and accretion of lease liabilities, and impairment losses on financial instruments, and is recognized in the period in which they are incurred. Debt issue costs are recognized withing profit or loss using the effective interest method.

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).

(d) Estimates and judgement

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 net assets is based on numerous estimates that affect the valuation of certain assets and liabilities acquired including the discount rates, estimates of proved and probable reserves, estimates of fair values of exploration and evaluation assets including undeveloped lands, estimate of realization of deferred tax assets, future oil and natural gas 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 record on the statement of income (loss) and comprehensive income (loss).

Promissory Note

The estimated fair value of financial liabilities, by their very nature, are subject to measurement 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.

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

3. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	September 30, 2023	December 31, 2022
Petroleum and natural gas marketers	**$ 9,725**	$ 754
Joint interest partners	**1,893**	977
Road use receivable	**432**	409
Royalty and other income	**93**	143
Other	**360**	210
Balance, end of period	**$ 12,503**	$ 2,493

4. ACQUISITIONS

The amounts disclosed below were based on management's preliminary estimates of fair value at the time of preparation of the financial statements based on the best available information. Up to twelve months from the effective date of the Boulder Acquisition, Castlegate Acquisition and Shale Acquisition further adjustments may be made to the fair values assigned to the assets acquired and liabilities assumed.

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 and proved cash flows.

The purchase price, based on managements estimates of fair values and subject to change, is as follows:

Net assets of Boulder Acquisition		
Working capital	$	642
Property, plant and equipment (oil and natural gas properties)		79,720
Decommissioning liability		(4,158)
Deferred tax asset		21,573
Total net assets acquired	$	97,777

Consideration for the Boulder Acquisition:		
Cash consideration	$	75,077
Promissory note (note 8)		14,000
Shares issued (1,500,000 common shares at $5.80 per share) (note 10)		8,700
Purchase consideration transferred	$	97,777

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

Results from operations for Boulder are included in the Company's condensed interim 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 gas reserves and the related cash flows prepared by independent third-party reserve evaluators and internally updated to reflect activity up to August 3, 2023. The oil and gas reserves and related cash flows were discounted at a rate based on what a market participant would have paid, as well as market metrics in the prevailing area at that time, ranging from 15-30%. The fair value of decommissioning obligations was estimated using a credit adjusted risk free rate of 10.28%.

Acquisition related costs totalling $229 thousand have been excluded from consideration paid and were recognized as transaction costs on the condensed interim consolidated statement of income (loss) and comprehensive income (loss) for the nine months ended September 30, 2023, when the costs were incurred.

Petroleum and natural gas sales of $10.1 million and operating income of $5.7 million are included in the condensed interim consolidated statement of income (loss) and comprehensive income (loss) for the Boulder Acquisition since the closing date of August 3, 2023.

Had the Boulder Acquisition occurred on January 1, 2023, the incremental petroleum and natural gas sales and operating income for the period ended September 30, 2023 would have been as follows:

	Incremental Amount
Petroleum and natural gas sales	$ 33,715
Operating Income	$ 21,102

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 and proved cash flows.

The purchase price, based on managements estimates of fair values and subject to change, is as follows:

Net assets of Castlegate Acquisition		
Working capital (including $1.73 million cash)	$	2,962
Current tax liability		(609)
Property, plant and equipment (oil and natural gas properties)		42,486
Decommissioning liability		(187)
Deferred tax liability		(7,059)
Total net assets acquired	$	37,593
Consideration for the Castlegate Acquisition:		
Cash consideration	$	37,593
Purchase consideration transferred	$	37,593

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

Results from operations for Castlegate are included in the Company's condensed interim 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 gas reserves and the related cash flows prepared by independent third-party reserve evaluators and internally updated to reflect activity up to August 3, 2023. The oil and gas reserves and related cash flows were discounted at a rate based on what a market participant would have paid, as well as market metrics in the prevailing area at that time, ranging from 15-30%. The fair value of decommissioning obligations was estimated using a credit adjusted risk free rate of 10.28%.

Acquisition related costs totalling $104 thousand have been excluded from consideration paid and were recognized as transaction costs on the condensed interim consolidated statement of income (loss) and comprehensive income (loss) for the nine months ended September 30, 2023, when the costs were incurred.

Petroleum and natural gas sales of $4.2 million and net income of $3.2 million are included in the condensed interim consolidated statement of income (loss) and comprehensive income (loss) 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 period ended September 30, 2023 would have been as follows:

	Incremental Amount
Petroleum and natural gas sales	$ 21,138
Operating income	$ 15,050

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.. 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 and subject to change, is as follows:

Net assets of Shale Acquisition		
Working capital (including $2.12 million cash)	$	2,094
Property, plant and equipment (oil and natural gas properties)		3,159
Decommissioning liability		(1,249)
Deferred tax asset		3,403
Total net assets acquired	$	7,407
Consideration for the Shale Acquisition:		
Shares issued (1,277,025 common shares at $5.80 per share) (note 10)	$	7,407
Purchase consideration transferred	$	7,407

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

Results from operations for Shale are included in the Company's condensed interim 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 gas reserves and the related cash flows prepared by independent third-party reserve evaluators and internally updated to reflect activity up to August 3, 2023. The oil and gas reserves and related cash flows were discounted at a rate based on what a market participant would have paid, as well as market metrics in the prevailing area at that time, ranging from 15-30%. The fair value of decommissioning obligations was estimated using a credit adjusted risk free rate of 10.28%.

Acquisition related costs totalling $185 thousand have been excluded from consideration paid and were recognized as transaction costs on the condensed interim consolidated statement of income (loss) and comprehensive income (loss) for the nine months ended September 30, 2023, when the costs were incurred.

Petroleum and natural gas sales of $636 thousand and operating income of $389 thousand are included in the condensed interim consolidated statement of income (loss) and comprehensive income (loss) 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 period ended September 30, 2023 would have been as follows:

	Incremental Amount
Petroleum and natural gas sales	$ 3,236
Operating income	$ 1,145

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

5. EXPLORATION AND EVALUATION ASSETS

Evaluation and evaluation assets is comprised of the following:

	September 30, 2023	December 31, 2022
Balance, beginning of period	**$ 951**	$ 738
Additions	**1,055**	403
Dispositions	**(21)**	(185)
Land lease expiries	**-**	(5)
Balance, end of period	**$ 1,985**	$ 951

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

At September 30, 2023, there were no indicators of impairment.

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

6. PROPERTY, PLANT AND EQUIPMENT

	September 30, 2023			
COSTS	**Oil and natural gas properties (Upstream)**	**Midstream**	**Corporate**	**Total**
Balance, January 1, 2023	**$ 10,860**	**$ 8,942**	**$ 1,182**	**$ 20,984**
Change in decommissioning liabilities (note 9)	**21,474**	**(11)**	**-**	**21,463**
Additions	**2,289**	**686**	**-**	**2,975**
Acquisitions (note 4)	**125,365**	**-**	**-**	**125,365**
Transferred to assets held for sale	**-**	**-**	**(1,182)**	**(1,182)**
Balance, September 30, 2023	**$ 159,988**	**$ 9,617**	**$ -**	**$ 169,605**
ACCUMULATED DEPLETION, DEPRECIATION AND IMPAIRMENT				
Balance, January 1, 2023	**$ (6,470)**	**$ (1,451)**	**$ (30)**	**$ (7,951)**
Depletion and depreciation	**(2,891)**	**(281)**	**(45)**	**(3,217)**
Transferred to assets held for sale	**-**	**-**	**75**	**75**
Balance, September 30, 2023	**$ (9,361)**	**$ (1,732)**	**$ -**	**$ (11,093)**
Net book value, September 30, 2023	**$ 150,627**	**$ 7,885**	**$ -**	**$ 158,512**

	December 31, 2022			
COSTS	Oil and natural gas properties (Upstream)	Midstream	Corporate	Total
Balance, January 1, 2022	$ 11,104	$ 8,535	$ -	$ 19,639
Change in decommissioning liabilities (note 9)	(268)	(29)	-	(297)
Additions	24	436	1,182	1,642
Balance, December 31, 2022	$ 10,860	$ 8,942	$ 1,182	$ 20,984
ACCUMULATED DEPLETION, DEPRECIATION AND IMPAIRMENT				
Balance, January 1, 2022	$ (6,016)	$ (1,152)	$ -	$ (7,168)
Depletion and depreciation	(454)	(299)	(30)	(783)
Balance, December 31, 2022	$ (6,470)	$ (1,451)	$ (30)	$ (7,951)
Net book value, December 31, 2022	$ 4,390	$ 7,491	$ 1,152	$ 13,033

Future development costs of $304.3 million (December 31, 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 period ended September 30, 2023. Future development costs are only included for CGUs with production.

The Company assesses many factors when determining if an impairment test should be performed. At September 30, 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 to September 30, 2023, and the impact this has on the economic performance of the Company's CGUs resulted in no indicators of impairment at September 30, 2023.

During the third quarter ended September 30, 2023, the Company listed its Corporate assets for sale and believes the sale will occur within twelve months. Therefore, the Corporate assets have been reclassified as assets held for sale at September 30, 2023. The corporate assets have no associated liabilities.

During the three and nine month periods ended September 30, 2023, the Company capitalized $100 thousand and $100 thousand, respectively, of general and administrative costs directly related to exploration and drilling activities.

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

7. BANK DEBT

	September 30, 2023	December 31, 2022
Credit facilities		
Syndicated loan facility	**$ 73,500**	$ -
Operating facility	**-**	-
Total draw, end of period	**$ 73,500**	-
Debt issue costs incurred	**(1,218)**	-
Amortization of debt issue costs (note 13)	**51**	
Balance credit facilities, end of period	**$ 72,333**	$ -

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. The New Credit Facilities are comprised of revolving credit facilities consisting of a $10 million operating facility and a syndicated loan facility to a maximum of $90 million. The New Credit Facilities allow the Company to enter into Letters of Credit up to a maximum of $20 million.

The New Credit Facilities bear interest at the Bank's prime rate plus an applicable margin of 250bps to 500bps on prime rate loans and 350bps to 650bps on stamping fees related to bankers acceptances, margin on SOFR 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 September 30, 2023, the Company had an effective interest rate of prime plus 4.0% per annum on prime-based loans under the New Credit Facilities.

The New Credit Facilities have 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 New Credit Facilities are 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 New Credit Facilities 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 New Credit Facilities are 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 December 31, 2023. The New Credit Facilities include operating restrictions on the Company, including (among other things), limitations on acquisitions, distributions, dividends and hedging arrangements. The New Credit Facilities include industry standard reporting requirements and financial covenants. With respect to financial covenants, the Company is required to maintain a minimum Liability Management Rating 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 September 30, 2023. At September 30, 2023, the Company is in compliance with this requirement.

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, 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 September 30, 2023, the Company is in compliance with this requirement.

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

Total debt issue costs associated with the debt financing was approximately $1.22 million. Amortization of $0.05 million has been included in finance expense for the three and nine month periods ended September 30, 2023.

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.

8. PROMISSORY NOTE

	September 30, 2023	December 31, 2022
Principal balance	**$ 14,000**	$ -
Accrued interest (note 13)	**289**	-
Balance, end of period	**$ 14,289**	$ -

The Promissory Note was issued in conjunction with the Boulder Acquisition (note 4). 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 New Credit Facilities (note 7). 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 New Credit Facility.

9. DECOMMISSIONING LIABILITIES

The Company's decommissioning liabilities result from its ownership interest in oil and natural gas properties including well sites 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 $29.7 million as at September 30, 2023 (December 31, 2022 - $2.36 million) based on an undiscounted and uninflated total future liability of $47.6 million (December 31, 2022 - $2.53 million) and discounted using a long-term risk-free rate of 3.85% (December 31, 2022 – 3.28%) and an inflation rate of 2.00% (December 31, 2022 – 2.09%). The expected timing of decommissioning expenditures extends to 2058.

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

The following table summarizes changes in the decommissioning liabilities:

	September 30, 2023	December 31, 2022
Balance, beginning of period	**$ 2,358**	$ 3,059
Change in discount rate	**(171)**	(564)
Change in cash flow estimates	**95**	(63)
Government subsidy for abandonment expenditures	**-**	420
Acquisitions (note 4)	**27,118**	-
Additions	**40**	-
Abandonment expenditures	**(120)**	(536)
Accretion expense (note 10)	**333**	42
Balance, end of period	**$ 29,653**	$ 2,358

The carrying value of certain oil and natural gas properties of the Company is $nil. Accordingly, the change in discount rate and cash flow estimates related to these properties was recorded as a reduction to depletion and depreciation expense for the three month period ending September 30, 2023 of $12 thousand and an increase to depletion and depreciation expense for the nine month period ending September 30, 2023 of $25 thousand (three and nine month periods ended September 30, 2022 – reduction of $155 thousand and $407 thousand, respectively).

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 $5.6 million (note 4). Subsequent to the Acquisitions, the associated decommissioning liabilities were recalculated using a risk free rate of 3.85%, resulting in an increase of $21.5 million that has been recorded as an adjustment to property, plant and equipment.

10. 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, 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 4)	1,500	8,700
Common shares issued as Shale Acquisition consideration (note 4)	1,277	7,407
Purchase of shares held in trust for performance share units (note 14)	(101)	(575)
Cash share issue costs (net of tax recovery)	-	(5,744)
Balance, September 30, 2023	15,013	$ 62,892

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

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 $35,000,000. 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 4), 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 4) 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 19) 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. The allocation was conducted by analyzing the fair value of each equity instrument and proportionately allocated using the relative fair value method. The fair value of the components of the units was based on the closing share/warrant price on the date of issuance .

Total transaction costs, net of tax recovery, associated with the equity financing are approximately $5.9 million, with $5.7 million recorded as share issue costs and $0.2 million recorded as warrant issue costs.

c) Net income (loss) per share

	Three months ended September 30, 2023			Three months ended September 30, 2022		
	Loss	**Common shares (000's)**	**Loss per share**	Net income	Common shares (000's)	Income per share
Income (loss) - basic	**$ (1,014)**	**11,728**	**$ (0.09)**	$ 241	6,014	$ 0.04
Dilutive effect	**-**	**-**	**-**	-	170	-
Income (loss) - diluted	**$ (1,014)**	**11,728**	**$ (0.09)**	$ 241	6,184	$ 0.04

	Nine months ended September 30, 2023			Nine months ended September 30, 2022		
	Loss	**Common shares (000's)**	**Loss per share**	Net income	Common shares (000's)	Income per share
Income (loss) - basic	**$ (1,641)**	**7,955**	**$ (0.21)**	$ 2,184	6,014	$ 0.36
Dilutive effect	**-**	**-**	**-**	-	178	-
Income (loss) - diluted	**$ (1,641)**	**7,955**	**$ (0.21)**	$ 2,184	6,192	$ 0.35

For the three and nine months ended September 30, 2023 all options, RSU's and DSU's were excluded as they were anti-dilutive. For the three and nine months ended September 30, 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.

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

11. WARRANTS

Issued and outstanding	Number of Warrants (000's)	Exercise Price
Balance, December 31, 2022	-	$ -
Warrants issued from equity financing (note 10)	2,917	7.50
Warrants issued from private placement (note 10)	233	7.50
Balance, September 30, 2023	3,150	$ 7.50
Exercisable, September 30, 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 September 30, 2023, the remaining life of the warrants is 2.84 years.

12. 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.

Revenues are typically collected on the 25th day of the month following production.

The following table summarizes the Company's product sales.

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2023	2022	**2023**	2022
Oil	**$ 13,640**	$ 1,135	**$ 15,326**	$ 3,411
Natural Gas Liquids	**1,115**	-	**1,115**	-
Natural Gas	**1,139**	-	**1,139**	-
Total	**$ 15,894**	$ 1,135	**$ 17,580**	$ 3,411

Transportation pipeline revenues:

The Company charges a tariff on oil that is sold through the Company's crude transmission pipeline. The transaction price is fixed and based on a publicly posted tariff. Revenue is recognized when a unit of production is delivered to the customer and control of the product transferred.

Revenues are typically collected on the 25th day of the month following production.

The following table summarizes the Company's transportation pipeline revenues.

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2023	2022	**2023**	2022
Transportation pipeline revenues	**$ 774**	$ 842	**$ 2,203**	$ 2,486

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

13. FINANCE INCOME AND EXPENSES, NET

	Three months ended		Nine months ended	
	September 30, 2023	September 30, 2022	**September 30, 2023**	September 30, 2022
Interest on bank debt	**$ 1,361**	$ 10	**$ 1,386**	$ 54
Interest on promissory note (note 8)	**289**	-	**289**	-
Amortization of debt issue costs	**51**	-	**51**	-
Interest income	**(22)**	-	**(22)**	-
Accretion of decommissioning liabilities (note 9)	**302**	11	**333**	35
Accretion of lease liabilities	**3**	-	**3**	1
Accretion of long-term accounts payable and accrued liabilities	**14**	21	**47**	63
Total	**$ 1,998**	$ 42	**$ 2,087**	$ 153

14. 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 options 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 September 30, 2023 are as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2022	176	$ 11.58
Expired	(19)	5.30
Granted	65	6.00
Outstanding, September 30, 2023	222	10.48
Exercisable, September 30, 2023	139	$ 12.51

The weighted average contractual term of all outstanding options at September 30, 2023 is 2.40 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

During the three and nine months ended September 30, 2023, the Company recorded share-based compensation expense relating to options of $31 thousand and $76 thousand, respectively (three and nine months ended September 30, 2022 - $61 thousand and $130 thousand, respectively) with a corresponding increase to share-based compensation reserve.

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
Number of options (#000's)	65
Exercise price ($/share)	$ 6.00
Stock price on grant date	$ 5.33
Expected life (years)	5.0
Risk-free interest rate	4.02%
Expected volatility	80%
Option fair value (per option)	$ 3.43
Estimated forfeiture rate	0%
Expected dividend yield	0%

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 Board of Directors (or a committee thereof) 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 September 30, 2023 is as follows:

	Number of RSU's
Outstanding, December 31, 2022	61
Granted	59
Outstanding, September 30, 2023	120
Exercisable, September 30, 2023	43

The weighted average contractual term of all outstanding RSU's at September 30, 2023 is 1.96 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 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

During the three and nine month period ended September 30, 2023, the Company recorded share-based compensation expense relating to RSUs of $40 thousand and $115 thousand, respectively (three and nine months ended September 30, 2022 - $78 thousand and $201 thousand, respectively) with a corresponding increase to share-based compensation reserve.

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.

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
Number of RSU's (#000's)	59
Exercise price ($/share)	$ -
Stock price on grant date	$ 5.33
Expected life (years)	3.33
Risk-free interest rate	4.02%
Expected volatility	80%
Option fair value (per option)	$ 5.33
Estimated forfeiture rate	0%
Expected dividend yield	0%

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 three and nine months ended September 30, 2023, the trustee purchase 100,800 common shares for a total cost of $575 thousand and as of September 30, 2023 the trustee held 100,800 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, September 30, 2023	$ 609

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

During the three and nine month period ended September 30, 2023, the Company recorded share-based compensation expense relating to PSUs of $19 thousand and $19 thousand, respectively (three and nine months ended September 30, 2022 - $nil and $nil, respectively) with a corresponding increase to share-based compensation reserve.

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. The Company has assumed vesting will be approved by the Board of Directors in the calculation of share-based compensation expense.

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 September 30, 2023 is as follows:

	Number of DSU's
Outstanding, December 31, 2022	-
Granted	20
Outstanding, September 30, 2023	20
Exercisable, September 30, 2023	-

The weighted average contractual term of all outstanding DSU's at September 30, 2023 is 2.91 years.

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

During the three and nine month period ended September 30, 2023, the Company recorded share-based compensation expense relating to DSUs of $20 thousand and $20 thousand, respectively (three and nine months ended September 30, 2022 - $nil and $nil, respectively) with a corresponding increase to share-based compensation reserve.

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%

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

15. SUPPLEMENTAL CASH FLOWS INFORMATION

Changes in non-cash working capital is comprised of:

	Three months ended September 30,		Nine months ended September 30,	
Source/(use) of cash	**2023**	2022	**2023**	2022
Accounts receivable	**$ (725)**	$ (238)	**$ (510)**	$ (311)
Deposits and prepaid expenses	**319**	146	**(13)**	(14)
Reclamation deposits	**-**	-	**123**	-
Accounts payable and accrued liabilities	**7,269**	30	**8,993**	(719)
Changes in non-cash working capital	**$ 6,863**	$ (62)	**$ 8,593**	$ (1 044)

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	**2023**	2022
The above figure relates to:				
Operating activities	**$ 2,699**	$ (100)	**$ 3,557**	$ (1,091)
Financing activities	**2,549**	-	**2,970**	-
Investing activities	**1,615**	38	**2,066**	47
Changes in non-cash working capital	**$ 6,863**	$ (62)	**$ 8,593**	$ (1,044)
Interest paid	**$ 1,361**	$ 10	**$ 1,386**	$ 54
Taxes paid (recovered)	**$ -**	$ -	**$ -**	$ -

16. COMMITMENTS

At September 30, 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	$ 351	$ 789

17. 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. There were no changes to the Company's risk management policies or processes since the year ended December 31, 2022.

(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:

	September 30, 2023	December 31, 2022
Cash	**$ 2,868**	$ 6
Accounts receivable	**12,503**	2,493
Deposits	**771**	93
Reclamation deposits	**18**	141
Total	**$ 16,160**	$ 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.

The Company's accounts receivable are aged as follows:

	September 30, 2023	December 31, 2022
Current (less than 90 days)	**$ 10,271**	$ 1,111
Past due (more than 90 days)	**2,232**	1,382
Total	**$ 12,503**	$ 2,493

As at September 30, 2023, management believes all receivables net of provision for expected credit losses will be collected.

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

(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. There have been no changes to the Company's policies for managing foreign currency risk, interest rate risk and commodity price risk.

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 New Credit Facility, 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 $47 thousand and $141 thousand, respectively for the three and nine month periods ended September 30, 2023.

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 September 30, 2023 as required under the New Credit Facilities (note 7):

Swaps:

Product	Notional Volume	Term	Fixed Price (CAD/GJ)	Index
Natural Gas	4,600GJ/day	Sept 1, 2023 to March 31, 2025	$ 3.00 - $3.05	AECO

Product	Notional Volume	Term	Fixed Price (CAD/bbl)	Index
Crude Oil	1,100bbls/day	October 1, 2023 to December 31, 2023	$ 106.00 - $111.20	WTI - NYMEX
Crude Oil	100bbls/day	November 1, 2023 to December 31, 2023	$ 114.15 - $114.15	WTI - NYMEX
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

The commodity contracts had a total fair value at September 30, 2023 of a liability of $3.82 million (December 31, 2022 – $nil). The corresponding unrealized loss for the three and nine month periods ended September 30, 2023 were $3.82 million, (three and nine month periods ended September 30, 2022 – $44 thousand gain and
$nil, respectively) and is included in the statement of income (loss) and comprehensive income (loss). Total realized losses for the three and nine month periods ended September 30, 2023 were $354 thousand (three and nine month periods ended September 30, 2022 – gain of $11 thousand and a loss of $64 thousand, respectively) and are also included in the statement of income (loss) and comprehensive income(loss).

For the three and nine month periods ended September 30, 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 $243 thousand.

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

(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 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 16.

At September 30, 2023, the Company had a working capital deficit of $2.7 million, excluding current portion of decommissioning obligations and commodity contracts. 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 New Credit Facilities. At September 30, 2023, the Company has classified $405 thousand of accounts payable and accrued liabilities as long term (December 31, 2022 - $666 thousand) as the vendor has agreed to a payment plan that extends beyond 12 months. At September 30, 2023, the Company has classified $14.3 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.

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 New Credit Facility. 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 New Credit Facility, 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 September 30, 2023.

The following table details the Company's financial liabilities, excluding commodity contracts, as at September 30, 2023:

	Total	**<1 year**	**1-3 years**	**4-5 years**
Accounts payable and accrued liabilities	**$ 21,258**	$ 20,853	$ 405	$ -
Bank debt	**72,333**	-	72,333	-
Promissory note	**14,289**	-	14,289	-
Lease liabilities	**386**	91	110	185
Total financial liabilities	**$ 108,266**	$ 20,944	$ 87,137	$ 185

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

18. 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.

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

	September 30, 2023	December 31, 2022
Adjusted current assets[1]	**$ 18,184**	$ 2,820
Adjusted current liabilities[1]	**(20,853)**	(2,390)
Adjusted working capital	**(2,669)**	430
Bank debt	**(72,333)**	-
Promissory note	**(14,289)**	-
Other long term obligations	**(405)**	(666)
Total net debt	**$ (89,696)**	$ (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.

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

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").

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

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2023	2022	**2023**	2022
Cash flow from operating activities	**$ 8,560**	$ 258	**$ 9,310**	$ 144
Change in non-cash working capital	**(2,699)**	100	**(3,557)**	1,091
Net interest[1]	**1,628**	10	**1,653**	54
Adjusted EBITDA	**7,489**	368	**7,406**	1,289
Decommissioning expenditures	**78**	85	**120**	85
Net interest[1]	**(1,628)**	(10)	**(1,653)**	(54)
Adjusted funds flow	**5,939**	443	**5,873**	1,320
Capital expenditures	**(2,917)**	(1,526)	**(4,030)**	(1,683)
Free funds flow	**$ 3,022**	$ (1,083)	**$ 1,843**	$ (363)

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 New Credit Facility (note 7).

19. 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 three and nine months ended September 30, 2023, the legal expenses incurred were $764 thousand and $1.5 million, respectively (three and nine months ended September 30, 2022 - $nil and $nil, respectively). For the three and nine months ended September 30, 2023, $126 thousand and $354 thousand, respectively, were record as transaction costs, $402 thousand and $823 thousand, respectively, were recorded as unit issuance costs, $145 thousand and $145 thousand, respectively, were recorded as debt issuance costs and $91 thousand and $162 thousand, respectively, were recorded as general and administrative expenses. As at September 30, 2023, $1.4 million (December 31, 2022 - $51 thousand) is included within accounts payable with respect to these charges.

At September 30, 2023, $2.5 million (December 31, 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.

(b) 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 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 10.

20. SEGMENT INFORMATION

In the third quarter of 2023, in conjunction with the Boulder Acquisition, Castlegate Acquisition and Shale Acquisition, the Company has changed the composition on its reportable segments to a single segment. The prior periods have not been restated as the information is presented in the condensed interim consolidated statement of financial position and condensed interim consolidated statement of income (loss) and comprehensive income (loss).