**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
(Canadian dollars, 000s)
(unaudited)

| | Note | **As at June 30, 2023** | As at December 31, 2022 |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets | | | |
| Cash | | **54,927** | 54,428 |
| Trade and other receivables | 5 | **19,484** | 27,187 |
| Prepaid expenses and deposits | | **5,599** | 3,767 |
| Investments | 7 | **467** | 171 |
| Total current assets | | **80,477** | 85,553 |
| Exploration and evaluation | | **2,418** | 2,413 |
| Property, plant and equipment | 9 | **246,142** | 250,045 |
| Deferred income taxes | | **34,580** | 37,042 |
| Total assets | | **363,617** | 375,053 |
| **LIABILITIES** | | | |
| Current liabilities | | | |
| Trade and other payables | 5 | **31,176** | 29,640 |
| Lease liabilities | 10 | **1,200** | 1,002 |
| Decommissioning provision | 13 | **6,900** | 6,900 |
| Total current liabilities | | **39,276** | 37,542 |
| Lease liabilities | 10 | **2,502** | 2,296 |
| Decommissioning provision | 13 | **205,347** | 201,487 |
| Total liabilities | | **247,125** | 241,325 |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 14 | **278,480** | 277,650 |
| Contributed surplus | | **17,259** | 16,617 |
| Accumulated other comprehensive loss | | **(76)** | (216) |
| Deficit | | **(179,171)** | (160,323) |
| Total shareholders' equity | | **116,492** | 133,728 |
| Total liabilities and shareholders' equity | | **363,617** | 375,053 |

Commitments (Note 17)
Subsequent events (Note 18)

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

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(Canadian dollars, 000s except per share data)
(unaudited)

| | Note | Three months ended June 30, 2023 | Three months ended June 30, 2022 | Six months ended June 30, 2023 | Six months ended June 30, 2022 |
|---|---|---|---|---|---|
| **REVENUE** | | | | | |
| Commodity sales | 15 | **42,272** | 90,426 | **95,211** | 156,606 |
| Royalty expense | | **(4,540)** | (8,736) | **(10,836)** | (16,444) |
| Commodity sales, net of royalties | | **37,732** | 81,690 | **84,375** | 140,162 |
| Processing and gathering | | **1,313** | 1,065 | **2,698** | 2,042 |
| Interest income | | **635** | - | **1,283** | - |
| Total revenue | | **39,680** | 82,755 | **88,356** | 142,204 |
| **EXPENSES** | | | | | |
| Operating | | **23,311** | 21,063 | **47,531** | 42,233 |
| Transportation | | **2,661** | 2,696 | **5,313** | 5,336 |
| Depletion and depreciation | 9 | **10,318** | 10,925 | **20,764** | 22,115 |
| Impairment reversal | | **-** | (4,500) | **-** | (4,500) |
| Site decommissioning grants | | **-** | (1,293) | **-** | (2,076) |
| Share-based compensation | | **504** | 555 | **1,289** | 892 |
| Finance | 16 | **1,726** | 2,399 | **3,472** | 5,136 |
| General and administrative | | **1,598** | 2,264 | **3,517** | 4,306 |
| Total expenses | | **40,118** | 34,109 | **81,886** | 73,442 |
| **Earnings (loss) before income taxes** | | **(438)** | 48,646 | **6,470** | 68,762 |
| **Deferred income taxes** | 11 | **(504)** | 1,546 | **(2,427)** | (3,137) |
| **NET EARNINGS (LOSS) FOR THE PERIOD** | | **(942)** | 50,192 | **4,043** | 65,625 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | | | |
| Unrealized gain (loss) on investments | | **69** | (215) | **275** | (148) |
| Realized loss on investments | | **-** | - | **(121)** | - |
| Deferred income tax on unrealized loss (gain) on investments | | **(8)** | 25 | **(14)** | 17 |
| **OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD, NET OF TAX** | | **61** | (190) | **140** | (131) |
| **TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD** | | **(881)** | 50,002 | **4,183** | 65,494 |
| **Net earnings (loss) per share ($)** | | | | | |
| Basic | 14 | **(0.00)** | 0.15 | **0.01** | 0.1[illegible] |
| Diluted | 14 | **(0.00)** | 0.14 | **0.01** | 0.1[illegible] |

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

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
(Canadian dollars, 000s)
(unaudited)

| | Note | Three months ended June 30, 2023 | Three months ended June 30, 2022 | Six months ended June 30, 2023 | Six months ended June 30, 2022 |
|---|---|---|---|---|---|
| **CASH PROVIDED BY (USED IN):** | | | | | |
| **OPERATING ACTIVITIES** | | | | | |
| Net earnings (loss) for the period | | **(942)** | 50,192 | **4,043** | 65,625 |
| Items not affecting cash: | | | | | |
| Depletion and depreciation | 9 | **10,318** | 10,925 | **20,764** | 22,115 |
| Impairment reversal | | **-** | (4,500) | **-** | (4,500) |
| Site decommissioning grants | | **-** | (1,293) | **-** | (2,076) |
| Share-based compensation | | **504** | 555 | **1,289** | 892 |
| Finance expenses | 16 | **1,726** | 2,399 | **3,472** | 5,136 |
| Deferred income taxes | 11 | **504** | (1,546) | **2,427** | 3,137 |
| Interest and bank charges | | **(70)** | (916) | **(131)** | (2,206) |
| Decommissioning obligations settled | 13 | **(828)** | (1,117) | **(2,498)** | (2,930) |
| Changes in non-cash working capital accounts | 16 | **1,292** | (4,167) | **5,464** | (10,790) |
| Cash provided by operating activities | | **12,504** | 50,532 | **34,830** | 74,403 |
| **INVESTING ACTIVITIES** | | | | | |
| Property, plant and equipment | 9 | **(8,189)** | (4,262) | **(12,630)** | (9,813) |
| Exploration and evaluation | | **(4)** | (20) | **(5)** | (36) |
| Acquisitions | | **(312)** | (319) | **(312)** | (591) |
| Dispositions | | **-** | 213 | **-** | 415 |
| Proceeds on sale of investments | | **-** | - | **227** | - |
| Changes in non-cash working capital accounts | 16 | **973** | 1,423 | **1,595** | (7,644) |
| Cash used in investing activities | | **(7,532)** | (2,965) | **(11,125)** | (17,669) |
| **FINANCING ACTIVITIES** | | | | | |
| Exercise of stock options | | **133** | 296 | **183** | 517 |
| Repayment of term debt | | **-** | (20,000) | **-** | (30,000) |
| Repayment of related party debt | | **-** | (6,000) | **-** | (6,000) |
| Repayment of promissory notes | | **-** | (6,000) | **-** | (6,000) |
| Dividends | 14 | **(11,478)** | (2,889) | **(22,891)** | (2,889) |
| Payments on lease obligations | 10 | **(269)** | (255) | **(498)** | (500) |
| Cash used in financing activities | | **(11,614)** | (34,848) | **(23,206)** | (44,872) |
| Increase (decrease) in cash | | **(6,642)** | 12,719 | **499** | 11,862 |
| Cash - beginning of period | | **61,569** | 6,017 | **54,428** | 6,874 |
| **CASH - END OF PERIOD** | | **54,927** | 18,736 | **54,927** | 18,736 |

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

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)**
(Canadian dollars, 000s)
(unaudited)

| | Note | Share capital | Contributed surplus[1] | Accumulated other comprehensive income (loss)[2] | Deficit | Total Shareholders' equity (deficit) |
|---|---|---|---|---|---|---|
| **BALANCE AT JANUARY 1, 2022** | | **275,766** | **15,400** | **(60)** | **(245,688)** | **45,418** |
| Net earnings for the period | | - | - | - | 65,625 | 65,625 |
| Dividends | | - | - | - | (2,889) | (2,889) |
| Share-based compensation | | - | 892 | - | - | 892 |
| Other comprehensive loss, net of tax | | - | - | (131) | - | (131) |
| Exercise of stock options | 14 | 1,450 | (933) | - | - | 517 |
| **BALANCE AT JUNE 30, 2022** | | **277,216** | **15,359** | **(191)** | **(182,952)** | **109,432** |
| Net earnings for the period | | - | - | - | 43,314 | 43,314 |
| Dividends | | - | - | - | (20,685) | (20,685) |
| Share-based compensation | | - | 1,564 | - | - | 1,564 |
| Other comprehensive loss, net of tax | | - | - | (25) | - | (25) |
| Exercise of stock options | 14 | 434 | (306) | - | - | 128 |
| **BALANCE AT DECEMBER 31, 2022** | | **277,650** | **16,617** | **(216)** | **(160,323)** | **133,728** |
| Net earnings for the period | | - | - | - | 4,043 | 4,043 |
| Dividends | 14 | - | - | - | (22,891) | (22,891) |
| Share-based compensation | | - | 1,289 | - | - | 1,289 |
| Other comprehensive income, net of tax | | - | - | 140 | - | 140 |
| Exercise of stock options | 14 | 830 | (647) | - | - | 183 |
| **BALANCE AT JUNE 30, 2023** | | **278,480** | **17,259** | **(76)** | **(179,171)** | **116,492** |

[1]Contributed surplus is comprised of share-based compensation.
[2]Accumulated other comprehensive income (loss) is comprised of realized and unrealized gains (losses) on financial assets held at fair value through other comprehensive income (loss).

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As at June 30, 2023 and December 31, 2022 and for the three and six month periods ended June 30, 2023 and 2022 (unaudited).
(all tabular amounts in Canadian dollars 000s, unless otherwise indicated)

## 1. NATURE OF BUSINESS

Pine Cliff Energy Ltd. ("**Pine Cliff**" or the "**Company**") is a public company listed on the Toronto Stock Exchange ("**TSX**") and incorporated under the *Business Corporations Act (Alberta)*. The address of the Company's registered office is Suite 850, 1015 - 4th Street SW, Calgary, Alberta, T2R 1J4.

Pine Cliff is engaged in the acquisition, exploration, development and production of natural gas and oil in the Western Canadian Sedimentary Basin and conducts many of its activities jointly with others; these interim condensed consolidated financial statements (the "**Financial Statements**") reflect only the Company's proportionate interest in such activities.

## 2. BASIS OF PREPARATION

**Statement of Compliance**

The Financial Statements have been prepared in accordance with IAS 34 – Interim Financial Reporting using International Financial Reporting Standards ("**IFRS**").

The Financial Statements do not include all the information required for annual financial statements and should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2022 ("**Annual Financial Statements**").

The accounting policies, basis of measurement, critical accounting judgments and significant estimates to prepare the Annual Financial Statements as at and for the year ended December 31, 2022 have been applied in the preparation of these Financial Statements.

The Financial Statements were authorized for issue by the Company's board of directors (the "**Board**") on August 1, 2023.

## 3. SIGNIFICANT ACCOUNTING POLICIES

*IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors*

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

*IAS 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.

Neither of these accounting pronouncements have a material impact on the Financial Statements.

## 4. FUTURE ACCOUNTING PRONOUNCEMENTS

The following is a future accounting pronouncement issued and not yet effective as at June 30, 2023. The Company intends to adopt this standard as it becomes effective and does not expect a significant impact.

*IAS 1 –Presentation of Financial Statements*

Effective January 1, 2024, amendments to the classification of liabilities as non-current include the requirement that a right to defer settlement must have substance and exist at the end of the reporting period.

## 5. FINANCIAL INSTRUMENTS

**Financial instruments and fair value measurement**

Financial instruments of the Company consist of cash, trade and other receivables, investments and trade and other payables. The carrying values of cash, trade and other receivables and trade and other payables approximate their respective fair values due to the short time before maturing. Investments are measured at fair value based on quoted market prices.

Assets and liabilities that are measured at fair value are classified into levels, reflecting the method used to make the measurements. Level 1 fair value measurements are based on quoted prices that are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Pine Cliff has no level 2 or level 3 financial instruments. Assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the placement within the fair value hierarchy level.

The following table sets out the Company's classification, carrying value and fair value of financial assets and liabilities as at June 30, 2023 and December 31, 2022:

| ($000s) | **June 30, 2023** | | December 31, 2022 | |
|---|---|---|---|---|
| Description | **Carrying value** | **Fair value** | Carrying value | Fair value |
| Cash | **54,927** | **54,927** | 54,428 | 54,428 |
| Trade and other receivables | **19,484** | **19,484** | 27,187 | 27,187 |
| Investments | **467** | **467** | 171 | 171 |
| Trade and other payables | **(31,176)** | **(31,176)** | (29,640) | (29,640) |

## 6. RISK MANAGEMENT

The Company is exposed to both financial and non-financial risks inherent in the oil and gas business. Financial risks include commodity prices, interest rates, equity price, foreign exchange, credit availability and liquidity. Financial risks can be managed, at least to a degree, through the utilization of financial instruments. Certain non-financial risks can be mitigated through the use of insurance and/or other risk transfer mechanisms, good business practices and process controls, while others must simply be borne. All risks can have an impact upon the financial performance of the Company.

**Market Risk**

Market risk is the risk that the fair value or future cash provided by operating activities of the Company's financial instruments will fluctuate because of changes in market prices. Components of market risk to which Pine Cliff is exposed are discussed below.

*Commodity Price Risk*

The Company is exposed to commodity price risk since its revenues are dependent on the prices of crude oil, natural gas liquids ("**NGLs**") and natural gas. Commodity prices have fluctuated widely during recent years due to global and regional factors including, but not limited to, supply and demand, inventory levels, weather, economic changes and geopolitical factors and instability. Changes in natural gas, crude oil and NGL prices may have a significant effect, positively or negatively, on the ability of the Company to meet its obligations, capital spending targets and expected operational results. A material decline or extended period of low natural gas, crude oil or NGLs will result in a reduction of net production revenue. The economics of production from some wells may change because of lower prices, which will result in reduced production of natural gas, crude oil or NGL's and a reduction in the volumes of Pine Cliff's reserves. Management may also elect not to produce from certain wells at lower prices.

*Physical Sales Contracts*

Pine Cliff enters into physical delivery sales contracts to manage commodity price risk. These contracts are considered normal executory sales contracts and are not recorded at fair value in the financial statements.

At June 30, 2023, the Company had the following physical natural gas sales contracts in place:

| Contractual Term | Delivery Point | Physical Delivery Quantity (GJ/day) | Contract Price ($CAD/GJ)[1] | Contract Price ($CAD/Mcf)[1,2] |
|---|---|---|---|---|
| July 1, 2023 to September 30, 2023 | AECO | 7,500 | $1.91 | $2.01 |
| July 1, 2023 to October 31, 2023 | AECO | 15,000 | $3.34 | $3.51 |
| August 1, 2023 to October 31, 2023 | AECO | 5,000 | $2.33 | $2.45 |
| July 1, 2023 to October 31, 2023 | Dawn[3] | 2,500 | $6.27 | $6.58 |
| July 1, 2023 to October 31, 2023 | TransGas[4] | 2,500 | $3.00 | $3.15 |
| July 1, 2023 to September 30, 2023 | Suffied[5] | 4,000 | AECO 5A + 0.42/GJ | AECO 5A + 0.44/Mcf |
| July 1, 2023 to October 31, 2023 | TransGas[4] | 7,000 | AECO 5A + 0.54/GJ | AECO 5A + 0.57/Mcf |

[1] Prices reported are the weighted average prices of the periods.
[2] Price has been converted from $/GJ to $/Mcf by multiplying by 1.05.
[3] Dawn Hub into Dawn Township, Ontario
[4] Subsidiary of SaskEnergy, Saskatchewan.
[5] The contract terms of the physical fixed price natural gas sales contract to Suffield#2 delivery point (Suffield, Alberta).

| Contractual Term | Delivery Point | Physical Delivery Quantity (GJ/day) | Contract Price ($CAD/GJ)[1] | Contract Price ($CAD/Mcf)[1,2] |
|---|---|---|---|---|
| July 1, 2023 to October 31, 2023 | AECO | 5,000 | $4.00 - $5.45 | $4.20 - $5.72 |

[1] Prices reported are the weighted average prices of the periods.
[2] Price has been converted from $/GJ to $/Mcf by multiplying by 1.05.

| Contractual Term | Type of Contract | Physical Delivery Quantity (Mmbtu/day) [1] | Contract Price ($USD/ Mmbtu)[2,3] |
|---|---|---|---|
| July 1, 2023 to October 31, 2023 | AECO[3] | 5,000 | NYMEX Henry Hub less US$1.335/Mmbtu |

[1] One Mcf of natural gas is approximately 1.02 Mmbtu.
[2] Prices reported are the weighted average prices of the periods.
[3] AECO basis differential.

At June 30, 2023, the Company had the following physical crude oil sales contract in place:

| Contractual Term | Crude Oil | Physical Delivery Quantity (Bbl/day) | Contract Price ($CAD/Bbl)[1] |
|---|---|---|---|
| July 1, 2023 to September 30, 2023 | WTI Fixed Price | 250 | $104.40 |

[1] Prices reported are the weighted average prices of the periods.

Subsequent to June 30, 2023, the Company had the following additional physical natural gas sales contracts in place:

| Contractual Term | Delivery Point | Physical Delivery Quantity (GJ/day) | Contract Price ($CAD/GJ)[1] | Contract Price ($CAD/Mcf)[1,2] |
|---|---|---|---|---|
| April 1, 2024 to October 31, 2024 | AECO | 5,000 | $2.78 | $2.92 |

[1] Prices reported are the weighted average prices of the periods.
[2] Price has been converted from $/GJ to $/Mcf by multiplying by 1.05.

Subsequent to June 30, 2023, the Company had the following additional physical crude oil sales contract in place:

| Contractual Term | Crude Oil | Physical Delivery Quantity (Bbl/day) | Contract Price ($CAD/Bbl)[1] |
|---|---|---|---|
| October 1, 2023 to December 31, 2023 | WTI Fixed Price | 250 | $100.50 |

[1] Prices reported are the weighted average prices of the periods.

## 7. INVESTMENTS

On February 17, 2023, Pine Cliff received the final payment of $0.35 million on the sale of a gold property to a publicly traded company, Nighthawk Gold Corp. ("**Nighthawk**"). This amount was previously recorded as trade and other receivables from Nighthawk and was settled by the issuance of 865,693 Nighthawk common shares to Pine Cliff. At June 30, 2023, the Company owned 865,693 Nighthawk common shares (December 31, 2022 – 475,996), with a fair value of $0.5 million (December 31, 2022 - $0.2 million).

## 8. EXPLORATION AND EVALUATION

### E&E Impairment Assessment

At June 30, 2023, the Company determined that no indicators of impairment existed for E&E assets.

## 9. PROPERTY, PLANT AND EQUIPMENT

| Cost: | ($000s) |
|---|---|
| **Balance at December 31, 2022** | **695,955** |
| Additions | 12,630 |
| Right-of-use assets | 966 |
| Acquisitions | 312 |
| Dispositions | (978) |
| Decommissioning provision | 3,017 |
| **Balance at June 30, 2023** | **711,902** |

| Accumulated depletion and depreciation: | ($000s) |
|---|---|
| **Balance at December 31, 2022** | **(445,910)** |
| Depletion and depreciation | (20,764) |
| Dispositions | 914 |
| **Balance at June 30, 2023** | **(465,760)** |

| Carrying value at: | ($000s) |
|---|---|
| December 31, 2022 | 250,045 |
| **June 30, 2023** | **246,142** |

### PP&E Impairment Assessment

As at June 30, 2023, the Company had three cash generating units ("**CGU's**") being Southern CGU, Central CGU and Edson CGU. In accordance with IFRS, an impairment test is performed if the Company identifies indicators of impairment at the end of a reporting period. At June 30, 2023, the Company determined that no indicators of impairment existed for PP&E assets.

## 10. LEASE LIABILITIES

Pine Cliff had the following future commitments associated with its lease liabilities:

| | ($000s) |
|---|---|
| 2023 | 685 |
| 2024 | 1,252 |
| 2025 | 1,082 |
| 2026 | 820 |
| 2027 | 229 |
| Thereafter | 7 |
| **Total lease payments as at June 30, 2023** | **4,075** |
| Amounts representing interest | (373) |
| **Present value of lease payments** | **3,702** |
| Current portion of lease obligations | (1,200) |
| **Non-current portion of lease obligations** | **2,502** |

For the three and six months ended June 30, 2023, interest expense of $0.05 million and $0.1 million (three and six months ended June 30, 2022 - $0.05 million and $0.01 million) and a total cash outflow of $0.4 million and $0.7 million (three and six months ended June 30, 2022 - $0.3 million and $0.6 million) was recognized relating to lease obligations.

The right-of-use assets and lease obligation relates to the Company's leases for vehicles and the head office in Calgary. A right-of-use asset of $8.2 million and $4.7 million in accumulated depreciation on the right-of-use-assets are included in PP&E. Refer to Note 9.

**11. DEFFERED INCOME TAX**

For the three and six months ended June 30, 2023, Pine Cliff recorded a deferred income tax expense of $0.5 million and $2.4 million (three and six months ended June 30, 2022 - $1.5 million deferred income recovery and $3.1 million deferred income tax expense). The deferred income tax expense/recovery reflects the change in temporary timing differences arising from the book basis of Pine Cliff's assets and liabilities relative to the tax basis.

**12. DEMAND LOAN**

The Company has a demand operating loan (the "**Demand Loan**") of $8.0 million with a Canadian chartered bank, of which no amount was drawn at June 30, 2023 (December 31, 2022 - $nil). Borrowings bear interest at the bank's prime lending rate plus 2.0%. Letters of credit issued under the Demand Loan are supported by a performance guarantee from Export Development Canada for an amount up to $2.6 million and incur an issuance fee ranging from 3.12% to 3.62%. At June 30, 2023, the Company had issued $0.8 million in letters of credit (December 31, 2022 - $1.7 million).

The Demand Loan is secured by a general security agreement over certain tangible field facilities of the Company.

**13. DECOMMISSIONING PROVISION**

The total current and long-term decommissioning provision of $212.2 million was estimated by management based on the Company's working interest and estimated costs to remediate, reclaim and abandon its wells, pipelines, and facilities and estimated timing of the costs to be incurred in future periods.

At June 30, 2023, the estimated total undiscounted and uninflated amount required to settle the decommissioning liabilities was $275.4 million (December 31, 2022 - $277.3 million). The discounted and inflated amount required to settle the decommissioning liabilities of $212.2 million (December 31, 2022 - $208.4 million) has been calculated assuming a 2.00% inflation rate (December 31, 2022 – 2.00%) and discounted using an average risk-free interest rate of 3.42% (December 31, 2022 – 3.33%). These obligations are currently expected to be settled based on the useful lives of the underlying assets, some of which extend beyond 50 years into the future.

| | ($000s) |
|---|---|
| **Decommissioning provision, December 31, 2022** | **208,387** |
| Increase in liabilities relating to development activities | 104 |
| Increase in liabilities relating to acquisitions | 1,137 |
| Decommissioning expenditures | (2,498) |
| Revisions (changes in estimates and discount rates) | 1,776 |
| Accretion | 3,341 |
| **Decommissioning provision, June 30, 2023** | **212,247** |
| Less current portion of decommissioning provision | (6,900) |
| **Non-current portion of decommissioning provision** | **205,347** |

**14. SHARE CAPITAL**

**Authorized**

The Company is authorized to issue an unlimited number of common shares ("**Common Shares**") without nominal or par value. Common Shares carry one vote per share and the right to any dividends declared. The Company is also authorized to issue, in one or more series, an unlimited number of Class B Preferred Shares without nominal or par value.

**Issued and outstanding**

| Issued and outstanding share capital continuity: | Common Shares (000s) | Share capital ($000s) |
|---|---|---|
| **Balance, December 31, 2022** | **350,909** | **277,650** |
| Exercise of stock options | 4,631 | 830 |
| **Balance, June 30, 2023** | **355,540** | **278,480** |

**Stock Options**

The Company provides an equity settled stock option plan (the "**Option Plan**") for its directors and employees. Under the Option Plan, the Company may grant stock options up to 10% of outstanding Common Shares on the grant date. The term and vesting period of the options granted are determined at the discretion of the Company's board of directors. The exercise price of each option granted equals the market price of the Common Shares immediately preceding the date of grant and the option's maximum term is five years.

| Stock options issued and outstanding: | Options (000s) | Weighted-average exercise price ($ per Common Share) |
|---|---|---|
| **Outstanding, December 31, 2022** | **18,324** | **0.87** |
| Granted | 10,130 | 1.30 |
| Exercised | (5,465) | 0.25 |
| Cancelled | (596) | 1.03 |
| Forfeited | (1,560) | 1.05 |
| **Outstanding, June 30, 2023** | **20,833** | **1.23** |
| **Exercisable, June 30, 2023** | **3,763** | **1.05** |

| Exercise price: | Stock options outstanding (000s) | Weighted-average remaining term (years) | Stock options exercisable (000s) | Weighted-average remaining term (years) |
|---|---|---|---|---|
| $0.10 - $0.15 | 854 | 0.8 | 854 | 0.8 |
| $0.16 - $0.33 | 3,905 | 1.6 | 1,068 | 0.9 |
| $0.34 - $0.99 | 130 | 1.8 | - | - |
| $1.00 - $1.49 | 10,082 | 2.9 | - | - |
| $1.50 - $1.92 | 5,862 | 1.9 | 1,841 | 0.9 |
| | **20,833** | **2.3** | **3,763** | **0.9** |

The Company records share-based compensation expense over the vesting period, based on the fair value of the options granted. One third of the stock options granted vest annually on each of the first, second, and third anniversaries of the grant date and expire one year after each respective vesting date. During the six months ended June 30, 2023, the Company granted 10,130,180 stock options (June 30, 2022 – 6,828,600) with a fair value of $0.34 (June 30, 2022 - $0.73) per option using the Black-Scholes option pricing model using the following key assumptions:

| Assumptions (weighted average): | Six months ended June 30, **2023** | 2022 |
|---|---|---|
| Exercise price ($) | **1.30** | 1.90 |
| Estimated volatility of underlying common shares (%) | **62.0** | 73.3 |
| Expected life (years) | **3.0** | 3.0 |
| Risk-free rate (%) | **3.7** | 2.7 |
| Forfeiture rate (%) | **7.5** | 7.7 |
| Expected dividend yield (%) | **10.0** | 5.0 |

Estimated volatility is measured as the standard deviation of expected share price returns based on statistical analysis of historical daily share prices for a representative period.

**Per Share Calculations**

The average market value of the Common Shares for the purpose of calculating the dilutive effect of stock options and warrants was based on quoted market prices for the period that the options were outstanding.

| Net earnings (loss) per share calculation ($000s): | Three months ended June 30, **2023** | 2022 | Six months ended June 30, **2023** | 2022 |
|---|---|---|---|---|
| **Numerator** | | | | |
| Net earnings (loss) for the period | **(942)** | 50,192 | **4,043** | 65,625 |
| **Denominator (000s)** | | | | |
| Weighted-average Common Shares outstanding – basic | **353,216** | 345,402 | **352,245** | 343,131 |
| Dilutive effect of options outstanding | **-** | 15,301 | **7,293** | 16,126 |
| Weighted-average Common Shares outstanding – diluted | **353,216** | 360,703 | **359,538** | 359,257 |
| Net earnings (loss) per Common Share – basic ($) | **(0.00)** | 0.15 | **0.01** | 0.19 |
| Net earnings (loss) per Common Share – diluted ($) | **(0.00)** | 0.14 | **0.01** | 0.18 |

Dividends declared and paid for the three and six months ended June 30, 2023 was $11.5 million and $22.9 million (three and six months ended June 30, 2022 - $2.9 million). Dividends declared and paid for the three and six months ended June 30, 2023 was $0.03 and $0.06 per Common Share ($0.01 per Common Share for the three and six months ended June 30, 2022).

## 15. COMMODITY SALES

The Company's commodity sales revenue is determined pursuant to the terms of the marketing agreements. The revenue for natural gas, crude oil and NGLs is based on the commodity price in the month of production, adjusted for quality, location, allowable deductions, if any, or other factors. Commodity sales revenues are based on marketed indices that are determined on a monthly or daily basis.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| ($000s) | **2023** | 2022 | **2023** | 2022 |
| Natural gas | **26,939** | 65,706 | **62,361** | 113,098 |
| NGLs | **6,037** | 10,972 | **14,390** | 19,424 |
| Crude oil | **9,296** | 13,748 | **18,460** | 24,084 |
| Total commodity sales | **42,272** | 90,426 | **95,211** | 156,606 |

## 16. SUPPLEMENTAL CASH FLOW INFORMATION

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| Changes in non-cash working capital: | | | | |
| Trade and other receivables[1] | **1,326** | (6,691) | **7,355** | (11,938) |
| Prepaid expenses and deposits | **(2,003)** | (2,380) | **(1,832)** | (2,079) |
| Trade and other payables and accrued liabilities | **2,942** | 6,328 | **1,536** | (4,069) |
| | **2,265** | (2,743) | **7,059** | (18,086) |
| Change related to: | | | | |
| Operating activities | **1,292** | (4,167) | **5,464** | (10,790) |
| Investing activities | **973** | 1,424 | **1,595** | (7,296) |
| | **2,265** | (2,743) | **7,059** | (18,086) |

[1] Changes in non-cash working capital excludes the receivable amount referred to in note 7.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| Finance expenses: | **2023** | 2022 | **2023** | 2022 |
| Interest expense and bank charges | **70** | 916 | **131** | 2,206 |
| Non-cash: | | | | |
| Accretion on decommissioning provision | **1,656** | 1,425 | **3,341** | 2,834 |
| Accretion on promissory notes and term debt | **-** | 58 | **-** | 96 |
| Total finance expenses | **1,726** | 2,399 | **3,472** | 5,136 |

Cash interest paid in the three months and six months ended June 30, 2023, was $0.1 million (three and six months ended June 30, 2022- $1.2 million and $3.4 million).

## 17. COMMITMENTS

As at June 30, 2023, the Company has the following commitments and other contractual obligations:

| | **2023** | **2024** | **2025** | **2026** | **2027** | **Thereafter** |
|---|---|---|---|---|---|---|
| ($000s) | | | | | | |
| Trade and other payables | 31,176 | - | - | - | - | - |
| Lease obligations[1] | 685 | 1,252 | 1,082 | 820 | 229 | 7 |
| Transportation[2] | 4,414 | 7,200 | 6,688 | 5,922 | 4,601 | - |
| Total commitments and contingencies | **36,275** | **8,452** | **7,770** | **6,742** | **4,830** | **7** |

[1] See Note 10.
[2] Firm transportation agreements.

### 18. SUBSEQUENT EVENTS

**Dividends**

On July 31, 2023, the Company paid a monthly dividend of $0.01083 per Common Share to all shareholders of record on July 14, 2023.

On August 1, 2023, the Company declared a monthly dividend of $0.01083 per Common Share. The dividend is payable August 31, 2023, to all shareholders of record on August 15, 2023.

**BOARD OF DIRECTORS**
William S. Rice - Chairman
Philip B.Hodge
Robert B. Fryk
Calvin B. Jacober
Jacqueline R. Ricci

**OFFICERS**
Philip B.Hodge
President and Chief Executive Officer
Terry L. McNeill
Chief Operating Officer
Alan MacDonald
Chief Financial Officer and Corporate Secretary

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**AUDITORS**
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