

ITEM 1. FINANCIAL STATEMENTS – UNAUDITED

ALPINE SUMMIT ENERGY PARTNERS, INC. CONDENSED CONSOLIDATED BALANCE SHEETS

(As at; amounts in U.S. dollars, except share amounts)	Notes	March 31, 2023 (unaudited)	December 31, 2022
ASSETS			
Current assets:			
Cash and cash equivalents		\$ 7,011,728	\$ 7,123,068
Restricted cash		2,719,360	3,375,395
Accounts receivable, net	3	15,390,733	26,466,208
Derivative assets	18	-	2,019,600
Prepaid expenses		771,325	1,075,697
Total current assets		25,893,146	40,059,968
Oil and natural gas properties, full-cost method:			
Evaluated		396,578,208	347,541,801
Unproved and unevaluated		37,447,299	42,866,767
Less: accumulated depreciation, depletion and amortization		(106,100,075)	(87,993,495)
Oil and natural gas properties, net	4	327,925,432	302,415,073
Other noncurrent assets:			
Operating lease assets		502,507	548,963
Derivative assets	18	-	1,057,479
Total assets		\$ 354,321,085	\$ 344,081,483
LIABILITIES AND SHAREHOLDERS' DEFICIENCY			
Current liabilities			
Accounts payable and accrued liabilities	5	\$ 112,923,310	\$ 96,432,486
Corporate credit facility	6	54,280,301	41,500,000
Current portion of operating lease liabilities		213,466	210,157
Current portion of long-term debt, net	6	84,790,604	60,226,919
Accrued liability for automatic share purchase plan	9	-	4,670,507
Total current liabilities		252,207,681	203,040,069
Long-term debt, net	6	-	48,678,708
Operating lease liabilities		347,350	401,734
Asset retirement obligations		510,417	458,078
Total liabilities		\$ 253,065,448	\$ 252,578,589
Commitments and contingencies (Note 20)			
Redeemable non-controlling interest	7	\$ 104,001,441	\$ 107,583,737
SHAREHOLDERS' DEFICIENCY			
Share capital - Subordinate Voting Shares	9	\$ 46,814,346	\$ 47,595,028
<i>Issued and outstanding: 33,830,221 and 33,956,073 at March 31, 2023 and December 31, 2022, respectively.</i>			
Share capital - Multiple Voting Shares	9	859,874	1,051,546
<i>Issued and outstanding are 6,853 and 8,380 at March 31, 2023, and December 31, 2022, respectively.</i>			
Share capital - Proportionate Voting Shares	9	128,213	128,213
<i>Issued and outstanding are 15,947 at March 31, 2023 and December 31, 2022.</i>			
Additional paid-in capital		41,311,221	36,436,307
Accumulated deficit		(69,696,480)	(76,210,173)
Shareholders' equity (deficit) attributable to the Company		19,417,174	9,000,921
Non-controlling interest	8	(22,162,978)	(25,081,764)
Total Shareholders' Deficiency		\$ (2,745,804)	\$ (16,080,843)
TOTAL LIABILITIES, REDEEMABLE NON-CONTROLLING INTEREST AND SHAREHOLDERS' DEFICIENCY		\$ 354,321,085	\$ 344,081,483

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

ALPINE SUMMIT ENERGY PARTNERS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(LOSS)

(unaudited; amounts in U.S. dollars, except share amounts)	Notes	Three months ended March 31,	
		2023	2022
REVENUES			
Oil and gas revenues	12	\$ 30,045,921	\$ 34,958,761
Gain / (loss) on derivative instruments, net	19	18,469,658	(22,601,045)
Total revenues		48,515,579	12,357,716
OPERATING EXPENSES			
Production costs and transportation	13	10,297,192	5,500,322
General and administrative	15	3,441,595	4,476,687
Depreciation, depletion, and amortization		18,106,581	9,191,057
Asset retirement obligation accretion		9,227	7,976
Total operating expenses		31,854,595	19,176,042
OPERATING INCOME (LOSS)		16,660,984	(6,818,326)
OTHER INCOME (EXPENSE)			
Finance and interest income (expense), net	14	(6,137,113)	(1,097,190)
Total other income (expense)		(6,137,113)	(1,097,190)
INCOME (LOSS) BEFORE INCOME TAXES		10,523,871	(7,915,516)
Income tax provision (benefit)	16	-	-
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)		10,523,871	(7,915,516)
NET INCOME ATTRIBUTABLE TO REDEEMABLE NON-CONTROLLING INTEREST	7	283,326	7,130,296
NET INCOME (LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTEREST	8	3,726,852	(5,066,647)
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO THE COMPANY		\$ 6,513,693	\$ (9,979,165)
Earnings (loss) per SVS and PVS, and MVS on an as-converted basis: (Note 11)			
Basic		\$ 0.19	\$ (0.30)
Diluted		\$ 0.19	\$ (0.30)
Weighted average number of shares per SVS and PVS, and MVS on an as-converted basis: (Note 11)			
Basic		34,670,678	33,810,211
Diluted		54,742,819	33,810,211

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ALPINE SUMMIT ENERGY PARTNERS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY

For the three months ended March 31, 2023:

(unaudited; amounts in U.S. dollars)	Notes	Total Share Capital	Additional Paid In-Capital	Accumulated Deficit	Total shareholders' equity attributable to the Company	Non-controlling interests	Total Deficiency
Balance as at January 1, 2023		\$ 48,774,787	\$ 36,436,307	\$ (76,210,173)	\$ 9,000,921	\$ (25,081,764)	\$ (16,080,843)
Repurchase of SVS for cancellation	9	(972,354)	-	-	(972,354)	-	(972,354)
Change in NCI ownership	8	-	381,477	-	381,477	(381,477)	-
Automatic share purchase plan	9	-	4,670,507	-	4,670,507	-	4,670,507
Stock based compensation	10	-	328,993	-	328,993	-	328,993
Development partnership redemption for Origination member units	7	-	1,684,646	-	1,684,646	820,985	2,505,631
Dividends declared and paid	8, 9	-	(2,190,709)	-	(2,190,709)	(1,247,574)	(3,438,283)
Net income		-	-	6,513,693	6,513,693	3,726,852	10,240,545
Balance as at March 31, 2023		\$ 47,802,433	\$ 41,311,221	\$ (69,696,480)	\$ 19,417,174	\$ (22,162,978)	\$ (2,745,804)

For the three months ended March 31, 2022:

(unaudited; amounts in U.S. dollars)	Total Share Capital	Additional Paid In-Capital	Accumulated Deficit	Total shareholders' equity attributable to the Company	Non-controlling interests	Total Deficiency
Balance as at January 1, 2022	\$ 43,414,147	\$ 40,252,848	\$ (83,638,308)	\$ 28,687	\$ (24,541,685)	\$ (24,512,998)
Settlement of RSUs	1,001,250	(1,001,250)	-	-	-	-
Change in NCI ownership	-	(45,102)	-	(45,102)	45,102	-
Stock based compensation	-	1,290,143	-	1,290,143	-	1,290,143
Development partnership redemption for Origination member units	-	2,355,869	-	2,355,869	803,826	3,159,695
Dividends declared and paid	-	(3,039,576)	-	(3,039,576)	(1,560,047)	(4,599,623)
Net income (loss)	-	-	(9,979,165)	(9,979,165)	(5,066,647)	(15,045,812)
Balance as at March 31, 2022	\$ 44,415,397	\$ 39,812,932	\$ (93,617,473)	\$ (9,389,144)	\$ (30,319,451)	\$ (39,708,595)

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

ALPINE SUMMIT ENERGY PARTNERS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited; amounts in U.S. dollars)	Notes	Three months ended March 31,	
		2023	2022
Cashflows from operating activities			
Net income (loss)		\$ 10,523,871	\$ (7,915,516)
Adjustments to reconcile net income (loss) to cashflows from operating activities:			
Depreciation, depletion and amortization		18,106,581	9,191,057
Amortization of operating lease asset		46,455	27,767
Asset retirement obligation accretion expense		9,227	7,976
Share-based compensation	10	328,993	1,290,143
Amortization of deferred financing costs and unpaid interest	6	1,547,918	187,993
Unrealized loss on derivative instruments	19	3,077,079	13,815,573
Margin calls on derivative instruments, net	18	-	(5,342,657)
Changes in operating assets and liabilities	21	12,901,255	(29,483,694)
Cashflows from (used in) operating activities		\$ 46,541,379	\$ (18,221,358)
Cashflows from investing activities			
Capital expenditures on oil and natural gas properties	4	(28,992,460)	(14,778,026)
Cashflows used in investing activities		\$ (28,992,460)	\$ (14,778,026)
Cashflows from financing activities			
Proceeds from Redeemable NCI	7	2,573,145	35,701,365
Redemption and distributions to Redeemable NCI	7	(3,596,163)	(475,000)
Proceeds from credit facility draws	6	12,538,462	23,429,339
Credit facility restructuring fees	6	(78,453)	-
Repayment on credit facility		-	(12,700,000)
Repayment of asset backed preferred notes		-	(3,063,582)
Payment on ABS Facility	6	(25,342,648)	-
Other long term debt repayment		-	(2,439,231)
Dividends on common shares and noncontrolling interest	8, 9	(3,438,283)	(4,599,623)
Cash used for common share repurchases	9	(972,354)	-
Cashflows from (used in) financing activities		\$ (18,316,294)	\$ 35,853,268
Net (decrease) increase in cash and cash equivalents and restricted cash		(767,375)	2,853,884
Cash, cash equivalents and restricted cash, beginning of period		10,498,463	8,622,815
Cash, cash equivalents and restricted cash, end of period		\$ 9,731,088	\$ 11,476,699

Refer to Note 21 for supplementary cash flow information.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. GENERAL

Description of Business

Alpine Summit Energy Partners, Inc. (the “Company” or “Alpine Summit”) was incorporated on July 30, 2008 under the Business Corporations Act (British Columbia) (“BCBCA”). On April 8, 2021, the Company entered into a Business Combination Agreement (“BCA”) pursuant to which it agreed to complete the BCA with HB2 Origination LLC (“Origination”) and changed its name to “Alpine Summit Energy Partners, Inc.” upon completion of the BCA.

The Company is engaged in oil and natural gas development, production, acquisition, and exploration activities in Texas through its controlled subsidiary Origination. The Company’s operating activities are mainly focused in the Austin Chalk and Eagle Ford formations in the Giddings Field, as well as the Hawkville Field.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These interim unaudited condensed consolidated financial statements (the “financial statements”) of the Company and its subsidiaries have been prepared in accordance with generally accepted accounting principles in the United States of America (“US GAAP”) and the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim consolidated financial information. These financial statements do not include all of the information and notes required by the US GAAP for annual consolidated financial statements and should therefore be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2022 filed with the SEC on March 27, 2023 (the “Annual Report”).

In the opinion of management, the interim condensed consolidated financial statements contain all normal recurring adjustments necessary to present fairly the Company’s financial position, results of operations and cash flows for the interim periods reported. These interim condensed consolidated financial statements follow the same significant accounting policies as those included in the Company’s audited consolidated financial statements for the year ended December 31, 2022, except for the adoption of new accounting standards (below). Amounts are stated in US dollars unless otherwise noted.

The Company’s operations and earnings for interim periods can be affected by seasonal fluctuations, as well as other factors such as supply of and demand for oil, natural gas, and natural gas liquids (“NGL”) and may not be indicative of annual results.

Basis of Measurement

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities in the financial statements. In determining these estimates, management makes subjective and complex judgments that may require assumptions about matters that are inherently uncertain. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Estimates and assumptions that, in the opinion of the Company’s management, are significant include the estimation of oil and natural gas reserves and depletion, the redemption value of redeemable non-controlling interests, determination of whether long-lived assets are impaired, valuation of asset retirement obligations, and deferred tax assets/liabilities. The Company bases its estimates and judgments on historical experience and on various other assumptions and information believed to be reasonable under the circumstances. Estimates and assumptions about future events and their effects cannot be predicted with certainty and, accordingly, these estimates may change as new events occur, as more experience is acquired, as additional information is obtained, or if the Company’s operating environment changes. Actual results may differ from the estimates and assumptions used in the preparation of these financial statements.

Going Concern

The financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates continuity of operations, realization of assets, and liquidation of liabilities in the normal course of business.

As at March 31, 2023 the Company had a working capital deficit of \$226,314,535, reflecting a significant increase in outstanding accounts payable and accrued liabilities as well as borrowings, due to the Company's increased capital expenditures on oil and natural gas properties. As a result, the Company does not currently have the cash resources to meet its current liabilities for the next twelve months. These factors raise substantial doubt about the Company's ability to continue as a going concern.

The Company's ability to continue as a going concern is dependent on its ability to generate sufficient cash flows from operations, as well as its ability to obtain financing via an asset sale and/or the issuances of debt and/or equity in the short term. While the Company believes it will be able to generate sufficient forecasted funds to meet foreseeable obligations via its ongoing operations and the sale of certain oil and gas properties (Note 22), there can be no assurance that the Company will be successful in its efforts to raise additional funds in the short term and its ability to generate sufficient operating cash flows.

Due to these factors, the Company may be unable to continue as a going concern. The financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern, and such adjustments could be material.

Adoption of New Accounting Standards

Accounting Standards Update ("ASU") 2021-08 – *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*, was issued in October 2021. The update, which can be adopted retrospectively or prospectively, requires the application of Topic 606 to recognize and measure contract assets and contract liabilities in a business combination. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2022. The Company adopted ASU 2021-08 effective January 1, 2023 and has elected to apply this ASU prospectively for future business combinations. There was no impact at the time of adoption.

The Company considers the applicability and the impact of all ASUs. ASUs not discussed above were assessed and determined to be either not applicable, the effects of adoption are not expected to be material or are clarifications of ASUs previously disclosed.

3. ACCOUNTS RECEIVABLE, NET

The accounts receivable, net balances consist of:

	March 31, 2023	December 31, 2022
Trade receivables from sales of crude oil and natural gas	\$ 13,268,738	\$ 24,097,294
Joint interest billing receivables and other	2,121,995	2,368,914
Accounts receivable, net	\$ 15,390,733	\$ 26,466,208

The Company has not had significant credit losses in the past and believes its accounts receivables are fully collectible. As such, no allowance for expected losses has been made as of March 31, 2023 and December 31, 2022, and no bad debt expense was recognized in the periods presented in these financial statements.

4. OIL AND NATURAL GAS PROPERTIES, NET

The Company uses the full-cost method of accounting for its oil and natural gas properties. Under this method, the Company is required to perform a ceiling test each quarter, that determines a limit, or ceiling, on the net capitalized costs of oil and natural gas properties. For the three months ended March 31, 2023 and 2022, the Company's full-cost ceiling exceeded the net capitalized costs less related deferred income taxes. As a result, the Company recorded no impairment to its net capitalized costs for those periods.

Further, during the three months ended March 31, 2023 and 2022, no unproved and unevaluated properties were impaired and transferred to be included in the depletion base as part of evaluated properties.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The amount of each significant category of accounts payable and accrued liabilities, are as follows:

	March 31, 2023	December 31, 2022
Trade payables	\$ 77,188,546	\$ 68,899,711
Joint interest and royalties payable	12,961,960	15,439,061
Accrued trade payables	15,641,600	5,648,451
Severance and other taxes payable	2,258,173	1,404,773
Payroll related accruals	4,873,031	4,975,288
Other	-	65,202
Total accounts payable and accrued liabilities	\$ 112,923,310	\$ 96,432,486

6. DEBT

Asset backed securitization facility (the “ABS Facility”)

In 2022, the Company entered into an asset backed securitization of certain producing oil and gas wells (the “ABS Facility”). The ABS Facility is led by an insurance company, and all borrowings under the ABS Facility are secured by working interests in a subset of the Company’s producing assets, which are held by a subsidiary of its operating subsidiary, Origination.

The ABS Facility consists of the following tranches:

- On April 27, 2022 the ABS Facility had an initial size of \$80,000,000 (“Tranche 1”) with additional capacity to expand up to \$150,000,000 in total based on the underlying collateral. Tranche 1 of the ABS Facility carries an interest rate of LIBOR+6% (with a 1% LIBOR floor) for the initial year, LIBOR +12% (with a 1% LIBOR floor) for the second year. Tranche 1 has an initial maturity date of one year, with the Company having the option to extend an additional year to an ultimate maturity date of April 2024, if certain conditions are met. Interest payments are required monthly.
- On September 12, 2022 the ABS Facility was increased by \$55,000,000 (“Tranche 2”), to a total size of \$135,000,000. Tranche 2 of the ABS Facility carries an interest rate of LIBOR+8% (with a 1% LIBOR floor) for the initial year, LIBOR +14% (with a 1% LIBOR floor) for the second year. Tranche 2 has an initial maturity date of one year, with the Company having the option to extend an additional year to an ultimate maturity date of September 2024, if certain conditions are met. Interest payments are required monthly.

In March 2023, the ABS Facility was modified to waive certain covenants until July 1, 2023, amend the principal repayment schedules, and extend the Tranche 1 initial maturity date to July 1, 2023. Additionally, part of Tranche 1 was repaid using the proceeds from the early settlement of the commodity derivatives (Note 19).

At the time of entering into Tranche 1 and 2, the Company had anticipated utilizing the term extensions to the ultimate maturity dates. Therefore, as the ABS Facility is an increasing rate debt, interest expense was recognized based on the imputed effective interest rate over the expected two-year term of each tranche, plus the LIBOR interest rate component. As a result, interest expense recognized in the first year of each tranche exceeds interest paid, resulting in an interest accrual. As an accounting policy, the Company does not subsequently revise the amortization schedule for changes to the expected life of the instrument.

Prior to the modification, the imputed effective interest rate of Tranche 1 and Tranche 2 was 12.2% and 13.6%, respectively. After modification, the revised imputed effective interest rate is 9.8% and 14.1% for Tranche 1 and Tranche 2, respectively, which reflects the modified forecasted timing of cash flows in connection with the modification. No gain or loss was recognized on the modified facility.

The Company also incurred third party transaction costs of \$598,986 due to the modification, which were recognized as finance expense under other fees (Note 14).

For the three months March 31, 2023, the Company incurred \$4,255,259 of finance and interest expense, excluding the third-party transaction costs on the modification noted above (March 31, 2022 - \$nil), and the interest paid on the ABS Facility was \$3,027,633.

As at March 31, 2023, due to uncertainties on the ability to exercise the extension options on Tranche 1 and 2, the full undiscounted principal of \$84,640,028 is forecasted to be payable in 2023, and the full balance has been classified as current. The carrying value of the outstanding loan balances is composed of:

March 31, 2023	Current	Long-term	Total (net)
Principal drawn	\$ 84,640,028	-	\$ 84,640,028
Accrued interest	2,156,471	-	2,156,471
Unamortized debt issuance costs	(2,005,895)	-	(2,005,895)
Total (net)	\$ 84,790,604	-	\$ 84,790,604

December 31, 2022	Current	Long-term	Total (net)
Principal drawn	\$ 61,630,567	\$ 48,352,110	\$ 109,982,677
Accrued interest	680,615	842,926	1,523,541
Unamortized debt issuance costs	(2,084,263)	(516,328)	(2,600,591)
Total (net)	\$ 60,226,919	\$ 48,678,708	\$ 108,905,627

Under the ABS Facility, the Company was also required to maintain an interest reserve account that will hold a cash balance sufficient to cover three months of scheduled interest payments, which is the restricted cash balance. As at March 31, 2023 the restricted cash balance was \$2,719,360 (December 31, 2022 - \$3,375,395).

Corporate credit facility

The corporate credit facility is secured by working interests in a subset of the Company's producing assets and charges interest at the greater of 5.00% and prime +1.75% and had a one-year maturity.

In March 2023, the corporate credit facility was modified, where the drawn principal was converted to a term loan due on July 1, 2023. Under the modified terms, the fees and transaction costs of \$78,453 were deferred and are amortized over the term of the loan, and the Company will pay an exit fee of \$135,000 at the time the loan is repaid.

The effective interest rate used to amortize the deferred costs and discounts at the time of modification is 10.82%. The interest expense is based on the imputed rate plus the changes to the prime rate component.

The carrying value of the outstanding loan balances is composed of:

March 31, 2023	Current	Long-term	Total (net)
Principal drawn	\$ 54,038,462	-	\$ 54,038,462
Accrued interest	312,664	-	312,664
Unamortized debt issuance costs	(70,825)	-	(70,825)
Total (net)	\$ 54,280,301	-	\$ 54,280,301

As of December 31, 2022, the Company had drawn \$41,500,000 under the corporate credit facility.

7. REDEEMABLE NON-CONTROLLING INTERESTS

The following table outlines the movement in redeemable non-controlling interests (“Redeemable NCI”) in the periods presented.

	For the three months ended March 31,	
	2023	2022
Balance as at January 1	\$ 107,583,737	\$ 46,552,839
Redeemable non-controlling interests issued	34,262,236	55,494,176
Net loss and comprehensive loss attributed	880,536	1,822,456
Revaluation to redemption value, net	(597,210)	5,307,840
Distributions	(1,772,989)	-
Settlement	(36,354,869)	(23,511,806)
Balance at March 31	\$ 104,001,441	\$ 85,665,505

The Company has established development partnerships (the “Development Partnerships”) as a mechanism to partially finance its development projects and activities. The redeemable non-controlling interest reflects the development partnership units that are not held by the Company either directly or indirectly. These external units consist of: (a) the Flat Payout Units, and (b) the IRR Payout Units.

The Flat Payout Units and the IRR Payout Units are entitled to 75% of the distributions of the related development partnership, until the “Base Payout” amount is received. The Base Payout is:

- (a) For the Flat Payout Units – an amount equal to the invested capital.
- (b) For the IRR Payout Units – an amount equal to the greater of (i) the invested capital plus a 15% annualized return and (ii) 120% of the initial investment.

After the Base Payout has been achieved, the participation in subsequent distribution will reduce to 20% of the Flat Payout Units held and 6% of the IRR Payout Units held. At that time, the unit holders also have the right to redeem (the “Put Right”) the units for either (i) Class B non-voting units of Origination (which are exchangeable on a one-for-one basis for Subordinate Voting Shares of the Company), or (ii) cash, subject to certain restrictions, and with the number of shares or cash to be distributed to be calculated based on future net present values of the oil and gas reserves of the related development partnership.

Development Partnership 2 (“DP2”)

During the third quarter of 2021, the Company formed DP2 with 25 external limited partners and Origination as a limited partner and the general partner. The intention of the DP2 was to partially finance the drilling and completion of five wells, with the external partners funding approximately 60% and the Company funding 40%. The Company raised \$20,815,329 from external limited partners of which \$1,724,967 was raised from officers and directors of the Company at that time. Investors participated \$7,390,362 in Flat Payout Units and \$13,424,967 in IRR Payout Units.

In January 2022, on completion of the DP2 program, the Company liquidated DP2 and redeemed the associated redeemable non-controlling interests with a redemption value of \$23,511,818. As part of this redemption, DP2 units with a redemption value of (a) \$3,159,695 were exchanged for 826,063 Class B non-voting units of Origination via the Put Right, and (b) \$84,300 retained the ongoing rights of working interest in the DP2 wells and as a result, the fair value of the units was settled with a disposition from PP&E, reflecting the disposition of the associated working interest.

Development Partnership 3 (“DP3”)

During the fourth quarter of 2021, the Company formed DP3 with 23 external limited partners and Origination as a limited partner and the general partner. The intention of the DP3 was to partially finance the drilling and completion of five wells, with the external partners funding approximately 60% and the Company funding 40%. The Company raised \$21,182,826 from external limited partners of which \$4,032,672 was raised from officers and directors of the Company. Investors participated \$10,413,322 in Flat Payout Units and \$10,769,504 in IRR Payout Units.

In April 2022, on completion of the DP3 program, the Company liquidated DP3 and redeemed the associated redeemable non-controlling interests with a redemption value of \$30,171,337. As part of this redemption, DP3 units with a redemption value of \$5,102,229 were exchanged for 894,929 Class B non-voting units of Origination via the Put Right.

Development Partnership 4 (“DP4”)

During the first quarter of 2022, the Company formed DP4 with 29 external limited partners and Origination as a limited partner and the general partner. The intention of DP4 was to partially finance the drilling and completion of five wells, with the external partners funding approximately 60% and the Company funding 40%. The Company has raised \$25,225,079 from external limited partners of which \$1,484,256 was raised from officers and directors of the Company. Investors participated \$11,638,948 in Flat Payout Units and \$13,586,130 in IRR Payout Units.

During the year ended December 31, 2022, the Company distributed \$2,747,270 to external partners.

In July 2022, on completion of the DP4 program, the Company liquidated DP4 and redeemed the associated redeemable non-controlling interests with a redemption value of \$31,734,290. As part of this redemption, DP4 units with a redemption value of (a) \$4,135,797 were exchanged for 706,975 Class B non-voting units of Origination via the Put Right, and (b) \$291,599 retained the ongoing rights of working interest in the DP4 wells and as a result, the fair value of the units was settled with a disposition from PP&E, reflecting the disposition of the associated working interest.

Development Partnership Red Dawn 1 (“Red Dawn 1”)

During the first quarter of 2022, the Company formed Red Dawn 1 with 37 external limited partners and Origination as a limited partner and the general partner. The intention of Red Dawn 1 is to partially finance the drilling and completion of five wells, with the external partners funding approximately 60% and the Company funding 40%. The Company has raised \$30,269,097 from external limited partners of which \$773,836 was raised from officers and directors of the Company. Investors participated \$16,692,200 in Flat Payout Units and \$13,576,895 in IRR Payout Units.

In November 2022, on completion of the Red Dawn 1 program, the Company liquidated Red Dawn 1 and redeemed the associated redeemable non-controlling interests with a redemption value of \$38,464,144. As part of this redemption, Red Dawn 1 units with a redemption value of (a) \$3,184,247 were exchanged for 617,103 Class B non-voting units of Origination via the Put Right, and (b) \$166,684 retained the ongoing rights of working interest in the Red Dawn 1 wells and as a result, the fair value of the units was settled with a disposition from PP&E, reflecting the disposition of the associated working interest.

Development Partnership 5 (“DP5”)

During the second quarter of 2022, the Company formed DP5 with 25 external limited partners and Origination as a limited partner and the general partner. The intention of DP5 is to partially finance the drilling and completion of six wells, with the external partners funding approximately 60% and the Company funding 40%. The Company has raised \$30,171,345 from external limited partners of which \$4,308,462 was raised from officers and directors of the Company. Investors participated \$19,657,921 in Flat Payout Units and \$10,513,413 in IRR Payout Units.

In January 2023, the Company redeemed redeemable non-controlling interests with a redemption value of \$36,354,869. In connection with this redemption, DP5 units with a redemption value of \$2,505,631 were exchanged for 499,794 Class B non-voting units of Origination.

Development Partnership 6 (“DP6”)

During the third quarter of 2022, the Company formed DP6 with 38 external limited partners and Origination as a limited partner and the general partner. The intention of DP6 is to partially finance the drilling and completion of certain wells, with the external partners funding approximately 60% and the Company funding 40%. The Company has raised \$34,157,892 from external limited partners of which \$2,215,096 was raised from officers and directors of the Company. Investors participated \$21,176,246 in Flat Payout Units and \$12,981,645 in IRR Payout Units.

During the three months ended March 31, 2023, the Company distributed \$1,772,989 to external partners.

As at March 31, 2023 both the redemption value and carrying value of the Redeemable NCI in DP6 was \$35,098,368.

Development Partnership Red Dawn II (“Red Dawn 2”)

During the fourth quarter of 2022, the Company formed Red Dawn 2 with 36 external limited partners and Origination as a limited partner and the general partner. The intention of Red Dawn 2 is to partially finance the drilling and completion of certain wells, with the external partners funding approximately 60% and the Company funding 40%. The Company has raised \$34,633,295 from external limited partners of which \$872,944 was raised from officers and directors of the Company. Investors participated \$20,645,955 in Flat Payout Units and \$13,987,340 in IRR Payout Units.

As at March 31, 2023 both the redemption value and carrying value of the Redeemable NCI in Red Dawn 2 was \$34,640,836.

Development Partnership 7 (“DP7”)

In January 2023, the Company formed DP7 with 24 external limited partners and Origination as a limited partner and the general partner. The intention of the DP7 is to finance the drilling and completion of certain wells, with external partners funding approximately 60% and the Company funding 40%. The Company raised \$34,262,236 from external limited partners of which \$4,946,981 was raised from officers and directors of the Company. Investors participated \$20,478,084 in Flat Payout Units and \$13,784,152 in IRR Payout Units.

As at March 31, 2023 both the redemption value and carrying value of the Redeemable NCI in DP7 was \$34,262,236.

8. NON-CONTROLLING INTERESTS

The non-controlling interests (“NCI”) reflects the Class B non-voting units of Origination that are not held by the Company either directly or indirectly. There are 20,052,658 outstanding Class B non-voting units of Origination held by external holders, reflecting a 36.74% economic interest in Origination as of March 31, 2023.

2023 Activities

During the three months ended March 31, 2023, Development Partnership units in DP5 were exchanged for 499,794 Class B non-voting units of Origination (Note 7), with a value of \$2,505,631.

The issuance of these Class B units is reflected as a reduction to Redeemable NCI for the value at which these units were issued, an increase to NCI for the change in the Company’s share in Origination’s net assets, and an increase to additional paid-in capital for the difference.

During the three months ended March 31, 2023, Origination repurchased and cancelled 278,600 of its Class A units, held by the Company, to match the number of Subordinate Voting Shares cancelled by the Company (Note 9).

The change in these Class A units resulted in a change to the NCI ownership, triggering an adjustment to the carrying value of NCI, with a corresponding offset to additional paid-in capital.

Origination declared and paid dividends to its Class B non-voting units of Origination totaling \$1,247,574, for the three months ended March 31, 2023, resulting in a decrease of non-controlling interest.

9. EQUITY

Authorized share capital

The Company is authorized to issue an unlimited number of Subordinate Voting Shares (“SVS”), Multiple Voting Shares (“MVS”), and Proportionate Voting Shares (“PVS”), with no par value. Subject to certain restrictions set out in the Company’s articles, each SVS is entitled to one vote per share, each MVS is convertible, at the option of the holder, into 100 SVS and entitles the holder to 100 votes per share and each PVS is convertible into one SVS and entitles the holder to 1,000 votes per share. Each PVS will automatically convert to one SVS upon the holder’s equity interest in Origination reducing to less than 75% of the interest

held on the date of the closing of the BCA.

The following table summarizes the movements in the Company's share capital for the three months ended March 31, 2023:

	SVS Shares		MVS Shares		PVS Shares		Total Share Capital
	Shares	Amount	Shares	Amount	Shares	Amount	
Balance at January 1, 2023	33,956,073	\$47,595,028	8,380	\$ 1,051,546	15,947	\$ 128,213	\$48,774,787
Exchange of units for SVS and MVS	152,748	191,672	(1,527)	(191,672)	-	-	-
Repurchase of SVS for cancellation	(278,600)	(972,354)	-	-	-	-	(972,354)
Balance at March 31, 2023	33,830,221	\$46,814,346	6,853	\$ 859,874	15,947	\$ 128,213	\$47,802,433

The following table summarizes the movements in the Company's share capital for the three months ended March 31, 2022:

	SVS Shares		MVS Shares		PVS Shares		Total Share Capital
	Shares	Amount	Shares	Amount	Shares	Amount	
Balance at January 1, 2022	32,535,731	\$ 41,989,020	10,335	\$ 1,296,914	15,947	\$ 128,213	\$ 43,414,147
Exchange of units for SVS and MVS	158,686	199,149	(1,587)	(199,149)	-	-	-
Settlement of RSUs	281,250	1,001,250	-	-	-	-	1,001,250
Balance at March 31, 2022	32,975,667	\$ 43,189,419	8,748	\$ 1,097,765	15,947	\$ 128,213	\$ 44,415,397

2023 Activity

During the three months ended March 31, 2023, the Company purchased and cancelled 278,600 SVS at an average price of \$3.49/share for an aggregate value of \$972,354, in connection with the Company's normal course issuer bid ("NCIB").

In March 2023, the Company cancelled the automatic share purchase plan ("ASPP") that had been entered into in connection with the NCIB. The cancellation of the ASPP resulted in the reversal of the accrued liability of the remaining balance under the NCIB (December 31, 2022 – liability of \$4,670,507)

During the three months ended March 31, 2023 1,527 MVS were converted into 152,748 SVS on a 100 to 1 basis.

Dividends

The total dividends declared and paid during the three months ended March 31, 2023 by class of shares was \$2,136,911, \$52,793, and \$1,005 for shares of SVS, MVS, and PVS, respectively (three months ended March 31, 2022 - \$2,951,612, \$86,497, and \$1,435, for shares of SVS, MVS, and PVS, respectively).

10. SHARE BASED COMPENSATION

Compensation expense for share-based awards was \$328,993 during the three months ended March 31, 2023 (March 31, 2022 - \$1,290,143). These amounts are included in general and administrative expense in the condensed consolidated statements of operations and comprehensive income (loss). The activity and assumptions for the share-based compensation plans are included below.

Share purchase options

The options outstanding under this plan are as follows:

	Stock options outstanding	Weighted- average exercise price	Weighted average remaining contractual term (years)	Aggregate Intrinsic Value
Outstanding, January 1, 2023	2,834,288	\$ 3.56		
Granted	-	-		
Forfeited	-	-		
Expired	-	-		
Exercised	-	-		
Outstanding, March 31, 2023	2,834,288	\$ 3.56	8.71	-
Exercisable, March 31, 2023	1,803,985	\$ 3.56	8.71	-

The Company incurred share-based compensation expense related to the stock options of \$120,760 during the three months ended March 31, 2023 (March 31, 2022 - \$517,743). As of March 31, 2023, the Company had \$959,670 of unrecognized compensation expense related to non-vested stock options. The remaining expense is expected to be recognized over a weighted average period of approximately 0.79 years.

Restricted Share Units (“RSUs”)

As of March 31, 2023, the Company’s nonvested RSUs outstanding are as follows:

	Restricted Share Units	Weighted- average grant date fair value	Weighted average remaining contractual term (years)	Aggregate Intrinsic Value
Nonvested, January 1, 2023	82,500	\$ 5.75		
Granted	-	-		
Forfeited	-	-		
Vested and settled	-	-		
Nonvested, March 31, 2023	82,500	\$ 5.75	0.42	\$ 74,250

The Company incurred share-based compensation expense related to the RSUs of \$93,217 during the three months ended March 31, 2023 (March 31, 2022 - \$512,993). As of March 31, 2023, the Company had \$159,506 of unrecognized compensation expense related to non-vested RSUs. The expense is expected to be recognized over a weighted average period of approximately 0.42 years.

Deferred Share Units (“DSUs”)

As of March 31, 2023, the Company’s DSUs outstanding are as follows:

	Deferred Share Units	Weighted- average grant date fair value	Weighted average remaining contractual term (years)	Aggregate Intrinsic Value
Outstanding, January 1, 2023	226,335	\$ 4.42		
Granted	-	-		
Forfeited	(5,637)	5.75		
Settled	-	-		
Outstanding, March 31, 2023	220,698	\$ 4.38	0.17	\$ 198,628
Vested, March 31, 2023	154,612	\$ 3.80	N/A	\$ 139,151

The Company incurred share-based compensation expense related to the DSUs of \$115,016 during the three months ended March 31, 2023 (March 31, 2022 - \$259,407). As of March 31, 2023, the Company had \$64,371

of unrecognized compensation expense related to non-vested DSUs. The expense is expected to be recognized within one year of grant.

11. EARNINGS PER SHARE

The Company's common shares consist of SVS, MVS, and PVS. Subject to certain restrictions set out in the Company's articles, the SVS, MVS, and PVS rank equally and are entitled to equal distributions, except for the MVS which receives 100 times the distribution entitlement.

As all three classes of common shares were determined to individually have the same entitlement to income (loss) per share on a basic and diluted basis, the below summarizes the amounts on an as-converted basis. The as-converted basis assumes the conversion of the PVS on a 1:1 basis into SVS, and the MVS on a 1:100 basis into SVS.

Basic EPS

The basic net income (loss) per share attributable to common shareholders for SVS, MVS, and PVS is determined using the two-class method.

The basic income (loss) per share on an as-converted basis to SVS is as follows:

	For the three months ended March 31,	
	2023	2022
Net income (loss) attributable to common shareholders	\$ 6,513,693	\$ (9,979,165)
Weighted average number of common shares outstanding (as-converted)	34,670,678	33,810,211
Income (loss) per share – basic	\$ 0.19	\$ (0.30)

Diluted EPS

Diluted net income (loss) per share attributable to SVS shareholders is computed using the more dilutive of the if-converted or treasury stock method, whereas diluted net income (loss) per share attributable to MVS and PVS shareholders is computed using the two-class method.

The diluted income (loss) per share on an as-converted basis to SVS is as follows:

	For the three months ended March 31,	
	2023	2022
Net income (loss) attributable to common shareholders	\$ 6,513,693	\$ (9,979,165)
Plus: Effect of dilutive items	3,726,852	-
	\$ 10,240,545	\$ (9,979,165)
Weighted average number of common shares outstanding (as-converted)	34,670,678	33,810,211
Plus: Effect for conversion of Origination Class B into SVS	19,869,400	-
Plus: Effect for dilutive share-based compensation awards	202,741	-
	54,742,819	33,810,211
Income (loss) per share – diluted	\$ 0.19	\$ (0.30)

As for the three months ended March 31, 2022 the Company reported a net loss, the potentially dilutive securities are antidilutive and accordingly, basic net loss per share equals diluted net loss per share for this period.

12. REVENUE FROM CONTRACTS WITH CUSTOMERS

The Company enters into contracts with customers to sell its oil, natural gas and natural gas liquids. Revenue from these contracts is recognized when the Company's performance obligations are satisfied, which generally occurs with the transfer of the control to the customer, and when collectability is reasonably assured. The transfer of control usually occurs when the product is physically transferred at the delivery point agreed upon in the contract and legal title to the product passes to the customer (often at terminals, pipelines, or other

transportation methods). The Company evaluates creditworthiness on an individual customer basis prior to entering into a sales contract and throughout the contract duration (Note 19).

The sales contracts range from short term to long term contracts that are variable-priced and based on actual quantities delivered each period. The transaction price includes variable consideration as product pricing is based on published market prices and adjusted for contract specified differentials such as quality, energy content and transportation. Determining the variable consideration does not require significant judgment and the Company engages third party sources to validate the estimates.

The Company does not disclose the value of unsatisfied performance obligations under its contracts with customers as it applies the practical expedient in accordance with ASC 606 – Revenue from Contracts with Customers (“ASC 606”). The expedient applies to variable consideration that is recognized as control of the product is transferred to the customer. Since each unit of product represents a separate performance obligation, future volumes are wholly unsatisfied, and disclosure of the transaction price allocated to remaining performance obligations is not required.

The Company evaluates its arrangements with third parties and partners to determine if the Company acts as the principal or as an agent. In making this evaluation, the Company considers if it obtains control of the product delivered or services provided, which is indicated by the Company having the primary responsibility for the delivery of the product or rendering of the service, having the ability to establish prices or having inventory risk. If the Company acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net-basis.

Revenue is recognized net of royalties due to third parties in an amount that reflects the consideration the Company expects to receive in exchange for those products.

The amount of each significant category of revenue is as follows:

	For the three months ended March 31,	
	2023	2022
Crude oil	\$ 14,807,620	\$ 25,589,855
Natural gas	12,157,116	4,222,333
Natural gas liquids	3,081,185	5,146,573
Total revenue from contracts with customers	\$ 30,045,921	\$ 34,958,761

13. PRODUCTION COSTS AND TRANSPORTATION EXPENSE

The amount of each significant category of production costs and transportation expense recognized, are as follows:

	For the three months ended March 31,	
	2023	2022
Operating expense	\$ 5,148,662	\$ 2,423,393
Production taxes	1,539,155	1,880,097
Transportation fees	2,643,478	941,446
Other	965,897	255,386
Total production costs and transportation expense	\$ 10,297,192	\$ 5,500,322

14. FINANCE AND INTEREST EXPENSE, NET

The amount of each significant category of finance and interest expense recognized, are as follows:

	For the three months ended March 31,	
	2023	2022
Interest expense on long term debt	\$ 4,255,259	\$ 629,647
Interest expense for corporate credit facility	1,313,358	397,270
Interest on asset back preferred	-	518,754
Interest rate derivative loss (gain)	-	(449,924)
Interest income	(53,741)	-
Other fees	622,237	1,443
Total finance and interest expense, net	\$ 6,137,113	\$ 1,097,190

15. GENERAL AND ADMINISTRATIVE EXPENSE

The amount of each significant category of general and administrative expense recognized, are as follows:

	For the three months ended March 31,	
	2023	2022
Employee salaries and benefits	\$ 1,471,167	\$ 2,380,447
Stock based compensation expense	328,993	1,290,143
Professional, legal, and advisory	1,203,939	770,904
Travel and accommodation	28,803	41,455
Software	111,954	42,132
Operating lease and variable lease costs	132,150	88,365
Office and administration	164,589	113,241
Recoveries	-	(250,000)
Total general and administrative expense	\$ 3,441,595	\$ 4,476,687

16. INCOME TAX

The Company's effective income tax rates (benefits) for the three months ended March 31, 2023 and 2022 was 0.00%. For the three months ended March 31, 2023, and 2022, the Company recorded income tax expense (benefit) of \$nil.

The difference in the Company's income tax provision calculated using its effective tax rates (benefits), from the amounts calculated by applying the U.S. federal income tax rate of 21% to its pretax income (loss) from continuing operations were primarily due to income (loss) not subject to corporate income taxes, non-controlling interests, as well as the valuation allowance.

17. RELATED PARTY TRANSACTIONS

The Company's related parties consist of directors and officers of the Company, their immediate families, and companies that are controlled or significantly influenced by directors and officers of the Company.

As at March 31, 2023, accounts receivable included \$158,124 due from officers and their immediate families of the Company under normal credit terms.

18. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

Hierarchy levels 1, 2 and 3 are terms for the priority of inputs to valuation techniques used to measure fair

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

- Level 1: Reflects inputs that are based on unadjusted quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.
- Level 2: Reflects inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly.
- Level 3: Reflects inputs that are both significant to the fair value measurement and less observable from objective sources.

Financial Assets and Liabilities

The Company's financial instruments are cash and cash equivalents, restricted cash, account receivable, net, derivative assets and liabilities, accounts payable and accrued liabilities, long term debt, corporate credit facility and the asset backed preferred instrument.

As required, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

The Company classifies its financial assets and liabilities as follows within the hierarchy:

- **Derivatives:**

Derivatives are financial instruments measured at fair value on a recurring basis.

Commodity derivatives

The fair value of the commodity derivative instruments is determined using observable market data for similar instruments, which resulted in the Company reporting its commodity derivatives as Level 2 on the fair value hierarchy. This observable data includes the forward curves for commodity prices based on quoted market prices and implied volatility factors related to changes in the forward curves. Counterparty statements are utilized to determine the value of the commodity derivative instruments and are reviewed and corroborated using various methodologies and significant observable inputs.

Interest rate derivatives

The fair value of the interest rate derivative instruments is determined using observable market data for forward curves for the benchmark interest rates, as well as time to maturity, contractual notional amounts, amongst other factors. The Company reports its interest rate derivatives as Level 2 on the fair value hierarchy. Counterparty statements are utilized to determine the value of the interest rate derivative instruments and are reviewed and corroborated using various methodologies and significant observable inputs.

- **Cash, cash equivalents and restricted cash:** The fair value of cash, cash equivalents and restricted cash approximates its carrying value due to the short-term to maturity, and is considered a Level 1 measurement.
- **Accounts receivable, net, and accounts payable and accrued liabilities:** The fair value of accounts receivable, net, and accounts payable and accrued liabilities approximate their carrying value due to their short term to maturity.
- **Long term debt:** The fair value of long-term debt approximates its carrying value as it in-part bears a floating rate of interest and is of a shorter duration of up to 2 years.
- **Corporate credit facility:** The recorded value of the corporate credit facility approximates its fair value, due to its floating rate structure based on prime plus a spread, secured interest, and short term to maturity.

There were no transfers between levels of the fair value measurement hierarchy during the periods presented.

The following tables set forth by level within the fair value hierarchy the Company's financial instruments, which were accounted for at fair value on a recurring basis as of March 31, 2023 and December 31, 2022:

Fair Value Measurements as at March 31, 2023 using			
	Level 1	Level 2	Level 3
Assets (liabilities):			
Commodity derivatives	-	-	-
Total	-	-	-

Fair Value Measurements as at December 31, 2022 using			
	Level 1	Level 2	Level 3
Assets (liabilities):			
Commodity derivatives	-	\$ 3,077,079	-
Total	-	\$ 3,077,079	-

Non-Financial Assets and Liabilities

Certain non-financial assets and liabilities are subject to fair value measurements. In those cases, the fair value may be estimated using comparable market data, a discounted cash flow method, or a combination of the two as considered appropriate based on the circumstances.

For the impairment assessment of evaluated oil and gas properties, the ceiling test requires an estimate of the fair value of the unevaluated and unproved properties that are included in costs being amortized. The fair value may be estimated using comparable market data, forecasted cashflows, or a combination of both as considered appropriate based on the circumstances. Given the significance of the unobservable nature of a number of the inputs, these are considered Level 3 on the fair value hierarchy.

Fair values are also estimated in connection with the initial measurement of asset retirement obligations. Given the significance of the unobservable nature of a number of the inputs, this measurement is considered Level 3 on the fair value hierarchy.

While the Company believes the methods used to estimate fair value are consistent with those used by other market participants, the use of other methods or assumptions could result in a different estimate of fair value.

19. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The future results of the Company's crude oil and natural gas operations will be affected by market prices of crude oil and natural gas which is affected by numerous factors beyond the control of the Company, including weather, imports, marketing of competitive fuels, proximity and capacity of crude oil and natural gas pipelines and other transportation facilities, any oversupply or undersupply of crude oil, natural gas and natural gas liquid products, economic disruptions, the regulatory environment, the economic environment, and other regional and political events, none of which can be predicted with certainty.

The Company's operations are also subject to concentration risk due to the fact that all of its oil and natural gas revenue is sourced from its operations in the United States. Further, two of the Company's customers reflect 84.7% of its oil and gas revenues for the three months ended March 31, 2023, with each of these customers representing 49.3% and 35.4% of the revenues, which represents further concentration risk in specific customers.

Credit Risks

Financial instruments which potentially subject the Company to credit risk consist principally of cash balances, accounts receivable, and derivatives.

The Company maintains cash balances at financial institutions, which may at times exceed the federally insured limits. The Company has not experienced any significant losses from such investments, and the

Company believes the credit quality of the financial institutions to be high.

The Company's accounts receivables are subject to normal industry credit risk. The accounts receivables are mainly due from participants in the oil and gas industry, who may be affected by periodic downturns in the economy, in general, or in their specific segment of the crude oil or natural gas industry. The Company believes that its level of credit-related losses due to such economic fluctuations have been immaterial.

The Company's derivative contracts are with established financial institutions with investment grade credit ratings which are believed to have minimal credit risk. As such, the Company is exposed to credit risk to the extent of nonperformance by the counterparties in the derivative contracts; however, the Company does not anticipate such nonperformance.

Commodity Price Risk and Interest Rate Risk

The Company has utilized various commodity price derivative instruments to reduce commodity price risk being the risk that future cash flows will fluctuate as a result of changes in commodity prices. In addition, from time to time the Company utilizes interest rate swaps to mitigate exposure to changes in interest rates on the Company's variable rate indebtedness.

All derivative instruments are recorded in the Company's condensed consolidated balance sheet as either assets or liabilities measured at their fair value. The Company has not designated any derivative instruments as hedges for accounting purposes and does not enter into such instruments for speculative trading purposes. The changes in the fair value are recognized in the Company's condensed consolidated statements of operations and comprehensive income (loss).

The location and amounts of the Company's realized and unrealized gains and losses on derivative contracts in the Company's condensed consolidated statements of operations and comprehensive income (loss) are as follows:

		For the three months ended March 31	
	Statements of Operations Location	2023	2022
Commodity derivative contracts			
Unrealized loss	Gain / (loss) on derivative instruments	\$ (3,077,079)	\$ (13,772,152)
Realized gain (loss)	Gain / (loss) on derivative instruments	21,546,737	(8,828,893)
Total gain (loss), net		\$ 18,469,658	\$ (22,601,045)
Interest rate derivative contracts			
Unrealized loss	Finance and interest expense	\$ -	\$ (43,421)
Realized gain	Finance and interest expense	-	493,345
Total gain, net		\$ -	\$ 449,924

Gains and losses on derivative instruments are included in the operating section of the condensed consolidated statements of cash flows.

As at March 31, 2023 the Company had closed out all of its open commodity derivative positions, realizing a net gain of \$18,469,658. There were no remaining open derivative positions as at March 31, 2023.

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.

At March 31, 2023 the Company had negative working capital of \$226,314,535. 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 through issuance of debt and/or equity.

The Company may need to conduct asset sales and/or issuances of debt and/or equity if liquidity risk increases in a given period. The Company believes it has sufficient funds to meet foreseeable obligations by actively monitoring its credit facilities through use of the loans, asset sales, and coordinating payment and revenue cycles.

20. COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, the Company may be involved in various legal proceedings and subject to claims that arise. Although the results of litigation and claims are inherently unpredictable and uncertain, the Company is not currently a party to any legal proceedings the outcome of which, if determined adversely to the Company, are believed to, either individually or taken together, have a material adverse effect on the Company's business, financial condition or results of operations.

The Company has certain commitments under leases, reflecting undiscounted lease payments of \$565,112 payable over lease terms ending in 2025. The Company also entered into a transportation agreement in 2022 for the transport of natural gas for minimum volumes, reflecting fees of approximately \$11,000 per day, subject to curtailments or production limitations.

21. SUPPLEMENTAL CASH FLOW DISCLOSURES

	For the three months ended March 31,	
	2023	2022
Supplementary cash flow information		
Cash paid for interest	\$ 3,911,062	\$ 799,418
Cash paid for income taxes	-	-
Non-Cash Investing Activities		
Property, plant and equipment non-cash accruals	\$ 14,918,342	\$ 30,831,459
Capitalized asset retirement obligations	43,112	50,560
	<u>\$ 14,961,454</u>	<u>\$ 30,882,019</u>
Non-Cash Financing Activities		
Redemption of Redeemable NCI via issuance of Redeemable NCI	\$ 31,689,090	\$ 19,792,811
Redemption of Redeemable NCI via issuance of Origination member units	2,505,631	3,159,695
Redemption of Redeemable NCI via oil and gas property disposition	336,974	84,300
	<u>\$ 34,531,695</u>	<u>\$ 23,036,806</u>
Changes in Operating Assets and Liabilities		
Accounts receivable, net	\$ 11,075,475	\$ (7,380,237)
Prepaid expenses	304,372	(360,372)
Accounts payable and accrued liabilities	1,572,483	(22,244,817)
Asset backed preferred instrument accrued interest	-	521,752
Operating leases liability	(51,075)	(20,020)
	<u>\$ 12,901,255</u>	<u>\$ (29,483,694)</u>

22. SUBSEQUENT EVENTS

The Company is continuing its strategic review of its assets and is currently pursuing the sale of certain oil and gas properties. The sale of these assets would allow for increased liquidity to continue the development of the Company's other properties and debt reduction.

In May 2023, the Company received notice of a "force majeure" from its major midstream provider in South Texas, which began on April 13, 2023 and continues to restrict production. The force majeure event is attributed to unplanned outages at facilities downstream of the system, with the result that capacity on the system has been limited and the Company's allocated volumes in that area have been reduced by approximately 70%. The notice did not provide a timeline for resolution of this issue. Although the midstream provider anticipates that these downstream matters will be resolved shortly, the prolonged downtime will have a significant impact on the Company's production.