

**PIPESTONE ENERGY CORP., AN AMALGAMATION
PREDECESSOR TO STRATHCONA RESOURCES LTD.**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023**

(unaudited)

Pipestone Energy Corp., an amalgamation predecessor to Strathcona Resources Ltd.
Interim Condensed Consolidated Statements of Financial Position

(amounts in thousands of Canadian dollars) (unaudited)

	Note	September 30, 2023	December 31, 2022
		\$	\$
Assets			
Current assets			
Accounts receivable	4(a)	43,422	72,657
Prepaid expenses and deposits		16,010	7,617
Risk management contracts	4(c)	-	7,242
Total current assets		59,432	87,516
Non-current assets			
Exploration and evaluation assets	5	17,676	17,278
Property and equipment	5	1,024,056	894,851
Right-of-use assets	5	89,243	98,388
Total assets		1,190,407	1,098,033
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		80,103	92,614
Lease liabilities	7	8,786	7,766
Risk management contracts	4(c)	2,600	-
Dividend payable	10(d)	-	8,368
Total current liabilities		91,489	108,748
Non-current liabilities			
Bank debt	6	178,936	105,095
Lease liabilities	7	92,211	98,706
Decommissioning provisions	8	13,205	13,846
Deferred tax liabilities		101,385	88,165
Total liabilities		477,226	414,560
Shareholders' Equity			
Share capital		440,863	439,041
Retained earnings		272,318	236,440
Contributed surplus	10(e)	-	7,992
Total shareholders' equity		713,181	683,473
Total liabilities and shareholders' equity		1,190,407	1,098,033
Commitments and contingencies (note 14)			
Subsequent events (note 15)			

See accompanying notes to the financial statements.

Pipestone Energy Corp., an amalgamation predecessor to Strathcona Resources Ltd.
Interim Condensed Consolidated Statements of Income and Comprehensive Income

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

	Note	Three months ended		Nine months ended	
		September 30,		September 30,	
		2023	2022	2023	2022
		\$	\$	\$	\$
Revenue					
Sales of liquids and natural gas	11	134,686	174,440	405,041	538,350
Royalties		(6,870)	(22,891)	(29,279)	(50,038)
Liquids and natural gas revenue		127,816	151,549	375,762	488,312
Realized gain (loss) on commodity risk management contracts	4(c)	115	(7,436)	11,921	(49,120)
Unrealized (loss) gain on commodity risk management contracts	4(c)	(7,100)	13,973	(9,208)	5,391
Total revenue		120,831	158,086	378,475	444,583
Expenses					
Operating		40,349	39,831	123,968	103,249
Transportation		11,739	10,100	33,712	30,672
General and administrative		1,911	3,219	7,898	8,225
Share-based compensation	10(e)	5,468	1,447	8,199	7,524
Depletion and depreciation	5	35,485	20,766	105,457	58,516
Transaction costs	15	14,613	-	14,613	-
Exploration and evaluation	5	-	829	829	1,658
Total expenses		109,565	76,192	294,676	209,844
Operating Income		11,266	81,894	83,799	234,739
Financing expense	12	(6,662)	(6,532)	(17,920)	(18,772)
Realized gain (loss) on interest rate risk management contracts	4(c)	-	268	642	(4)
Unrealized gain (loss) on interest rate risk management contracts	4(c)	-	21	(634)	1,498
Income Before Income Taxes		4,604	75,651	65,887	217,461
Deferred income tax recovery (expense)		1,941	(18,118)	(13,220)	(50,781)
Income and Comprehensive Income for the Period		6,545	57,533	52,667	166,680
Income per Share					
Basic	10(b)	0.02	0.31	0.19	0.88
Diluted	10(b)	0.02	0.21	0.19	0.59

See accompanying notes to the financial statements.

Pipestone Energy Corp., an amalgamation predecessor to Strathcona Resources Ltd.
Interim Condensed Consolidated Statements of Changes in Equity

(amounts in thousands of Canadian dollars) (unaudited)

	Note	Common shares	Share capital	Contributed surplus	Retained earnings	Total
		(000s)	\$	\$	\$	\$
Balance at January 1, 2022		191,446	394,159	4,789	24,691	423,639
Conversion of restricted share units	10(e)	1,066	1,210	(1,210)	-	-
Exercise of stock options	10(e)	422	867	(185)	-	682
Non-cash share-based compensation	10(e)	-	366	2,863	-	3,229
Employee share purchase plan	10(e)	158	366	-	-	366
Purchase of common shares under NCIB	10(c)	(7,461)	(34,473)	-	-	(34,473)
Income for the period		-	-	-	166,680	166,680
Balance at September 30, 2022		185,631	362,495	6,257	191,371	560,123
Conversion of restricted share units	10(e)	101	173	(173)	-	-
Exercise of stock options	10(e)	392	1,156	(197)	-	959
Non-cash share-based compensation	10(e)	-	129	683	-	812
Employee share purchase plan	10(e)	71	128	-	-	128
Tax deduction on excess value of share awards		-	-	1,422	-	1,422
Purchase of common shares under NCIB	10(c)	(1,188)	(4,890)	-	-	(4,890)
Conversion of preferred shares	9	93,942	79,850	-	-	79,850
Dividends	10(d)	-	-	-	(8,368)	(8,368)
Income for the period		-	-	-	53,437	53,437
Balance at December 31, 2022		278,949	439,041	7,992	236,440	683,473
Conversion of restricted share units	10(e)	465	1,119	(1,119)	-	-
Exercise of stock options	10(e)	37	77	(26)	-	51
Non-cash share-based compensation	10(e)	-	313	(6,847)	-	(6,534)
Employee share purchase plan	10(e)	257	313	-	-	313
Dividends	10(d)	-	-	-	(16,789)	(16,789)
Income for the period		-	-	-	52,667	52,667
Balance at September 30, 2023		279,708	440,863	-	272,318	713,181

See accompanying notes to the financial statements.

Pipestone Energy Corp., an amalgamation predecessor to Strathcona Resources Ltd.
Interim Condensed Consolidated Statements of Cash Flows

(amounts in thousands of Canadian dollars) (unaudited)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2023	2022	2023	2022
		\$	\$	\$	\$
Cash flows related to:					
Operating Activities					
Income		6,545	57,533	52,667	166,680
Add (deduct) items not involving cash:					
Unrealized (gain) loss on interest rate risk management contracts	4(c)	-	(21)	634	(1,498)
Unrealized loss (gain) on commodity risk management contracts	4(c)	7,100	(13,973)	9,208	(5,391)
Non-cash share-based compensation	10(e)	(9,265)	1,447	(6,534)	3,229
Exploration and evaluation	5	-	829	829	1,658
Depletion and depreciation	5	35,485	20,766	105,457	58,516
Deferred income tax (recovery) expense		(1,941)	18,118	13,220	50,781
Non-cash financing expense	12	704	1,767	1,387	4,951
Decommissioning provision costs incurred	8	(124)	-	(199)	-
Change in non-cash working capital	13	11,703	2,609	(7,505)	3,760
Cash from operating activities		50,207	89,075	169,164	282,686
Investing Activities					
Exploration and evaluation asset expenditures	5	(137)	(8)	(1,227)	(118)
Property and equipment expenditures	5	(54,354)	(60,367)	(225,605)	(216,006)
Property and equipment acquisitions	5	(315)	-	(416)	(96)
Change in non-cash working capital	13	(25,743)	(21,429)	15,836	13,228
Cash used in investing activities		(80,549)	(81,804)	(211,412)	(202,992)
Financing Activities					
Advances (repayments) of bank debt	6(a)	40,671	7,254	73,488	(41,017)
Bank debt issuance costs	6(a)	-	-	(684)	(677)
Principal portion of lease payments	7	(1,983)	(1,528)	(5,763)	(4,575)
Exercise of stock options	10(e)	-	115	51	682
Proceeds from issuance of common shares under employee purchase plan	10(e)	45	131	313	366
Dividends	10(d)	(8,391)	-	(16,789)	-
Purchase of common shares under NCIB	10(c)	-	(13,243)	-	(34,473)
Change in non-cash working capital	13	-	-	(8,368)	-
Cash from (used in) financing activities		30,342	(7,271)	42,248	(79,694)
Change in cash and cash equivalents		-	-	-	-
Cash and cash equivalents, beginning of period		-	-	-	-
Cash and cash equivalents, end of period		-	-	-	-

Supplemental cash flow information (note 13)

See accompanying notes to the financial statements.

Pipestone Energy Corp., an amalgamation predecessor to Strathcona Resources Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

As at and for the three and nine months ended September 30, 2023 and 2022

(tabular amounts in thousands of Canadian dollars unless otherwise indicated) (unaudited)

1. Reporting entity and description of the business

Pipestone Energy Corp. (“Pipestone Energy” or the “Company”), an amalgamation predecessor to Strathcona Resources Ltd., was engaged in the responsible exploration for, and development and production of, oil and natural gas liquids (including condensate, pentane, butane, propane and ethane) herein collectively referenced as “Liquids” and natural gas in Western Canada, with substantially all of its activities and assets focused in the Montney resource play in Alberta. The Company was incorporated under the Business Corporations Act (Alberta).

On October 3, 2023, Strathcona Resources Ltd. acquired all of the issued and outstanding common shares of Pipestone Energy. Upon closing of the Transaction, Strathcona Resources Ltd. and Pipestone Energy were amalgamated under the *Business Corporations Act* (Alberta) to form a new corporation, which has continued as “Strathcona Resources Ltd.” (“Strathcona”). Strathcona’s shares are listed on the TSX under the ticker symbol SCR. The address and principal place of business of Strathcona is Suite 1900, 421 – 7th Avenue S.W., Calgary, Alberta, T2P 4K9. See note 15 for more information.

Prior to the closing of the Transaction, Pipestone Energy shares were listed on the Toronto Stock Exchange (“TSX”) under the ticker symbol PIPE.

2. Basis of preparation

a) Statement of compliance

The unaudited interim condensed consolidated financial statements were prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (IASB), including International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*. The unaudited interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2022, which were prepared in accordance with IFRS. The disclosures provided herein are incremental to that in the annual consolidated financial statements. Certain information and disclosure required in the notes to the annual consolidated financial statements is condensed in these interim consolidated financial statements or disclosed only on an annual basis.

These interim condensed consolidated financial statements were approved and authorized for issuance by Strathcona’s Board of Directors (the “Board”) on November 13, 2023.

b) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the period. These estimates are reviewed periodically and, as adjustments become necessary, are reported in the period in which they become known. By their nature, these estimates and related future cash flows are subject to measurement uncertainty, and the impact on future consolidated financial statements could be material. A full list of the key sources of estimation uncertainty can be found in the Company’s annual financial statements for the year ended December 31, 2022.

3. New accounting policies

These interim condensed consolidated financial statements follow the same accounting policies as the audited consolidated financial statements for the year ended December 31, 2022, other than the following amendments to accounting standards, as issued by the IASB, that became effective for and were adopted on January 1, 2023. These amendments have not had a material impact on the consolidated financial statements.

Pipestone Energy Corp., an amalgamation predecessor to Strathcona Resources Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

As at and for the three and nine months ended September 30, 2023 and 2022

(tabular amounts in thousands of Canadian dollars unless otherwise indicated) (unaudited)

IAS 12 Income Taxes

In May 2021, the IASB issued an amendment to IAS 12 Income Taxes to clarify the accounting for deferred tax on transactions such as leases and decommissioning obligations. The scope of the recognition exemption in IAS 12 no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

IAS 1 Presentation of Financial Statements

In January 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements, to clarify its requirements for the presentation of liabilities as current or non-current in the statement of financial position.

4. Financial instruments and risk management

a) Credit risk

Pipestone Energy is exposed to credit risk on accounts receivable and risk management contract assets in the event that customers, joint interest partners, or counterparties fail to discharge their contractual obligations. As at September 30, 2023, Pipestone Energy's maximum exposure to receivable credit risk was \$43.4 million (December 31, 2022 – \$79.9 million) which is the value of accounts receivable and any risk management contract assets on the statement of financial position. The Company considers all accounts receivable greater than 90 days to be past due. At September 30, 2023, \$Nil is past due (December 31, 2022 – \$Nil). The Company believes that the credit risk associated with its risk management contracts asset is low given that the contracts are all held with large Canadian financial institutions. The Company continues to monitor the creditworthiness of customers and joint operations to limit exposure to this risk and considers all its current accounts receivable and risk management contract balances to be collectible.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due.

While the Company believes it will be successful in meeting its liquidity requirements, significant uncertainty exists due to the volatility of commodity prices, future reserve and production risks.

See note 14 for the timing of undiscounted cash flows relating to the financial liabilities outstanding at September 30, 2023.

c) Market risk

Market risks are as follows:

Foreign currency risk

At September 30, 2023 and December 31, 2022 the Company had no forward exchange rate contracts nor any working capital denominated in foreign currencies. The Company has indirect exposure to foreign currency risk due to the fact that WTI oil prices and a subset of its natural gas production volumes sold are benchmarked against the United States dollar. Condensate prices are also influenced by WTI prices.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate because of changes in market interest rates. The Company is exposed to interest rate fluctuations on its bank debt which bears variable rates of interest. The Company had a floating-to-fixed interest rate swap with a term that ended on March 31, 2023. This contract was held with a lender of the Company.

Pipestone Energy Corp., an amalgamation predecessor to Strathcona Resources Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

As at and for the three and nine months ended September 30, 2023 and 2022

(tabular amounts in thousands of Canadian dollars unless otherwise indicated) (unaudited)

A reconciliation of changes of fair value in Pipestone Energy's interest rate risk management contract asset (liability) and its carrying value is as follows:

	September 30, 2023	December 31, 2022
	\$	\$
Fair value of contracts, beginning of period	634	(439)
Change in the fair value of contracts	8	1,616
Fair value of contracts realized – gain	(642)	(543)
Fair value of contracts, end of period	-	634
Current asset	-	634

Commodity price risk

The following table summarizes the carrying value of Pipestone Energy's outstanding commodity risk management contract (liabilities) assets by product type:

	September 30, 2023	December 31, 2022
	\$	\$
Crude oil	(2,917)	889
Natural gas	317	5,719
Net commodity risk management contract liability	(2,600)	6,608

The Company has offset the following commodity risk management contracts where it has a legal right to settle on a net basis with its counterparties:

	September 30, 2023			December 31, 2022		
	\$ Asset	\$ Liability	\$ Net	\$ Asset	\$ Liability	\$ Net
Current liability	639	(3,239)	(2,600)	-	-	-
Current asset	-	-	-	6,613	(5)	6,608
Net position	639	(3,239)	(2,600)	6,613	(5)	6,608

At September 30, 2023, Pipestone Energy had the following commodity risk management contracts in place:

Term	C\$ WTI swaps ⁽¹⁾⁽²⁾		AECO 5A swaps ⁽¹⁾⁽²⁾	
	bbls/d	C\$/bbl	GJ/d	C\$/GJ
Oct. – Dec. '23	2,750	108.96	2,083	3.98
Jan. – Mar. '24	2,000	111.45	-	-
Apr. – Jun. '24	1,750	109.89	-	-

⁽¹⁾ Weighted-average volumes and prices are presented.

⁽²⁾ WTI refers to the West Texas Intermediate crude oil price and AECO refers to the Alberta Energy Company natural gas price (5A is a simple average of the daily spot prices).

Pipestone Energy Corp., an amalgamation predecessor to Strathcona Resources Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

As at and for the three and nine months ended September 30, 2023 and 2022

(tabular amounts in thousands of Canadian dollars unless otherwise indicated) (unaudited)

A reconciliation of changes of fair value in Pipestone Energy's commodity risk management contracts is as follows:

	September 30, 2023	December 31, 2022
	\$	\$
Fair value of contracts, beginning of period	6,608	(5,498)
Change in the fair value of contracts	2,713	(39,780)
Fair value of contracts realized – (gain) loss	(11,921)	51,886
Fair value of contracts, end of period	(2,600)	6,608

Commodity price sensitivities – risk management positions

The following summarizes the sensitivity of the fair value of Pipestone Energy's commodity risk management contracts to fluctuations in commodity prices, with all other variables held constant. Management believes the price fluctuations identified below are a reasonable measure of volatility. Fluctuating commodity prices could have resulted in unrealized gains or losses on the Company's risk management contracts at September 30, 2023, affecting profit or loss for the three and nine months ended as follows:

Commodity	Sensitivity range	Increase	Decrease
		\$	\$
Crude oil	± Cdn\$1 per bbl – WTI NYMEX	(466)	466
Natural gas	± Cdn\$0.10 per GJ – AECO 5A	(16)	16

d) Capital management

The Company's objective for managing capital is to maintain a strong balance sheet and available funding while providing financial flexibility to fund sustaining capital, high-return development growth and shareholder returns, which includes dividends and share buybacks.

Pipestone Energy manages its liquidity risk through its capital structure, cash flow forecasting, available credit and commodity hedging programs. The Company believes that it has sufficient available funding and will generate enough future cash flow to meet its foreseeable liquidity requirements.

The Company strives for a proportion of debt to future cashflow which appropriately balances the level of risk being incurred by its capital investments. Pipestone Energy's long-term strategy is to maintain a net debt to adjusted funds flow from operations ratio of less than 1.0 times. The actual ratio may fluctuate due to several factors including commodity prices, production levels, timing of expenditures and shareholder returns, such as dividends and share buybacks.

Adjusted funds flow from operations

Pipestone Energy uses adjusted funds flow from operations to provide an understanding of the Company's ability to generate cash flow necessary for financing its capital expenditures, financial obligations and shareholder distributions, including dividends and share buybacks. The measure is normalized for certain non-recurring transactions such as cash share-based compensation and transaction costs.

Pipestone Energy Corp., an amalgamation predecessor to Strathcona Resources Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

As at and for the three and nine months ended September 30, 2023 and 2022

(tabular amounts in thousands of Canadian dollars unless otherwise indicated) (unaudited)

The following table reconciles cash from operating activities to adjusted funds flow from operations:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Cash from operating activities	50,207	89,075	169,164	282,686
Change in non-cash working capital	(11,703)	(2,609)	7,505	(3,760)
Cash share-based compensation	14,733	-	14,733	4,295
Decommissioning provision costs incurred	124	-	199	-
Transaction costs	14,613	-	14,613	-
Adjusted funds flow from operations ⁽¹⁾	67,974	86,466	206,214	283,221
Annualized trailing period adjusted funds flow from operations ⁽¹⁾⁽²⁾	271,896	345,864	274,952	377,628

⁽¹⁾ Adjusted funds flow from operations is not defined under IFRS and therefore may not be comparable with the calculation of similar measures by other entities and should not be considered an alternative to, or more meaningful than, cash from operating activities.

⁽²⁾ Annualized factor 4x for the three months ended September 30, 2023 and 2022. Annualized factor 1.33x for the nine months ended September 30, 2023 and 2022.

Net debt

Pipestone Energy considers net debt to be a useful measure in understanding the Company's capital structure and, when considered with adjusted funds flow from operations, an indicator of leverage and overall financial strength.

The following table summarizes net debt balances and the net debt to adjusted funds flow from operations ratio for the periods disclosed:

As at September 30,	2023	2022
	\$	\$
Current assets	59,432	75,431
Current liabilities	(91,489)	(208,239)
Working capital deficit	(32,057)	(132,808)
Plus: current liability risk management contracts	2,600	1,493
Plus: current lease liabilities	8,786	6,630
Plus: current convertible preferred share obligation	-	77,590
Less: current asset risk management contracts	-	(2,445)
Adjusted working capital deficit ⁽¹⁾	(20,671)	(49,540)
Bank debt	(178,936)	(130,694)
Net debt ⁽²⁾	(199,607)	(180,234)
Net debt to annualized adjusted funds flow from operations for the trailing three months ended	0.7x	0.5x
Net debt to annualized adjusted funds flow from operations for the trailing nine months ended	0.7x	0.5x

⁽¹⁾ Adjusted working capital deficit is not defined under IFRS and therefore may not be comparable with the calculation of similar measures by other entities and should not be considered an alternative to, or more meaningful than, working capital deficit.

⁽²⁾ Net debt is not defined under IFRS and therefore may not be comparable with the calculation of similar measures by other entities.

Pipestone Energy Corp., an amalgamation predecessor to Strathcona Resources Ltd.

Notes to the Interim Condensed Consolidated Financial Statements

As at and for the three and nine months ended September 30, 2023 and 2022

(tabular amounts in thousands of Canadian dollars unless otherwise indicated) (unaudited)

The net debt to adjusted funds flow from operations ratio represents the time in years that it would take Pipestone Energy to repay its net debt if no further capital expenditures and shareholder distributions, such as dividends and share buybacks, were incurred and if adjusted funds flow from operations remained constant.

5. Exploration and evaluation (“E&E”), property and equipment (“P&E”) and right-of-use (“ROU”) assets

	E&E assets	Liquids and natural gas interests	Corporate	Total P&E assets	ROU assets
Cost	\$	\$	\$	\$	\$
Balance, January 1, 2022	29,752	845,759	972	846,731	97,659
Additions	134	245,197 ⁽¹⁾	396	245,593	26,046
Property acquisitions	-	96	-	96	-
Transfers	(10,225)	10,225	-	10,225	-
Decommissioning provisions (note 8)	-	(1,679)	-	(1,679)	-
Expiries	(2,383)	-	-	-	-
Balance, December 31, 2022	17,278	1,099,598	1,368	1,100,966	123,705
Additions	1,227	225,561 ⁽¹⁾	44	225,605	288
Property acquisition	-	416	-	416	-
Decommissioning provisions (note 8)	-	(792)	-	(792)	-
Expiries	(829)	-	-	-	-
Balance, September 30, 2023	17,676	1,324,783	1,412	1,326,195	123,993
Accumulated depletion and depreciation					
Balance, January 1, 2022	-	122,521	258	122,779	14,967
Depletion and depreciation	-	83,260	76	83,336	10,350
Balance, December 31, 2022	-	205,781	334	206,115	25,317
Depletion and depreciation	-	95,970	54	96,024	9,433
Balance, September 30, 2023	-	301,751	388	302,139	34,750
Carrying amount					
Balance, December 31, 2022	17,278	893,817	1,034	894,851	98,388
Balance, September 30, 2023	17,676	1,023,032	1,024	1,024,056	89,243

⁽¹⁾ Pipestone Energy capitalized direct general and administrative expenses of \$0.9 million and \$2.8 million during the respective three and nine months ended September 30, 2023 (year ended December 31, 2022 - \$3.3 million).

At September 30, 2023, the Company did not identify any indicators of impairment on its CGU.

The majority of the Company’s ROU assets at September 30, 2023 relate to compressor, pipeline and water infrastructure leases with midstream partners. Pipestone Energy has entered long-term fixed fee commitments with these third parties in exchange for the right to use and operate the assets. This infrastructure remains under third-party ownership.

Pipestone Energy Corp., an amalgamation predecessor to Strathcona Resources Ltd.

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As at and for the three and nine months ended September 30, 2023 and 2022

(tabular amounts in thousands of Canadian dollars unless otherwise indicated) (unaudited)

6. Bank debt

a) Reserve-based loan

	September 30, 2023	December 31, 2022
	\$	\$
Balance, beginning of period	105,095	171,866
Increase (decrease) in borrowing	73,488	(66,795)
Issuance costs	(684)	(730)
Amortization of debt issuance costs	1,037	754
Balance, end of period	178,936	105,095

On May 10, 2023, the Company redetermined its RBL. The total borrowing capacity of \$280.0 million (comprised of a \$250.0 million Senior Facility and \$30.0 million Operating Line) and the pricing grid remained unchanged, the covenants of the credit facility were amended to allow for additional permitted distributions. Pipestone Energy was permitted to make limited distributions, which includes share repurchases under its Normal Course Issuer Bid ("NCIB") and dividends, provided that (i) the aggregate amount of all such purchases made between any two scheduled borrowing base dates does not exceed \$30.0 million and (ii) upon such purchases being made, the net debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio of the Company (calculated on a pro forma basis, taking into account such purchases) would be less than 1.50:1.00. The Company was also permitted to make other permitted distributions (in excess of limited distributions), provided that (i) upon such other distribution being made, the net debt to EBITDA ratio of the Company (calculated on a pro forma basis) would be less than 1.50:1.00, (ii) the aggregate principal amount outstanding under the credit facilities, on a pro forma basis after giving effect to such other distribution, does not exceed 80% of the commitment amount and (iii) not less than 20% of the Company's average daily forecasted production of crude oil, condensate and natural gas (determined on a combined basis, and net of royalties) is hedged and subject to commodity swap contracts for the immediately following twelve month period. Collectively, the distributions cannot exceed \$100.0 million between scheduled borrowing base dates.

The maturity date for the RBL was extended to May 30, 2025. The borrowing base is based on the lenders' assessment of the Company's reserves and future commodity prices.

The RBL was repaid in full in connection with the Transaction. See note 15 for more information.

At September 30, 2023, the Company had \$155.0 million drawn against the Senior Facility (December 31, 2022 - \$104.0 million) and \$23.9 million drawn on the Operating Line (December 31, 2022 - \$1.5 million), for an aggregate draw on the RBL of \$178.9 million (December 31, 2022 - \$105.5 million).

As at September 30,	2023
	\$
RBL – portion drawn	178,936
Unamortized debt issuance costs	-
Balance, end of period	178,936

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As at September 30, 2023, Pipestone Energy's applicable pricing included a 1.8 percent per annum margin on prime loans, a 2.8 percent per annum stamping fee and margin on bankers' acceptances along with a 0.7 percent per annum standby fee on the portion of the RBL that is not drawn. Borrowing margins and fees are reviewed annually as part of the bank syndicate's annual renewal. For the three and nine months ended September 30, 2023 borrowing costs averaged 9.1 percent and 8.8 percent, respectively (three and nine months ended September 30, 2022 – 6.4 percent and 5.4 percent, respectively).

b) Letter of credit facility

At September 30, 2023, Pipestone Energy had a \$22.5 million unsecured letter of credit facility (the "EDC Letter of Credit Facility") under Export Development Canada's ("EDC") performance security guarantee program. At September 30, 2023, the Company had \$13.7 million of letters of credit issued and outstanding against the EDC Letter of Credit Facility (December 31, 2022 - \$13.7 million). Letters of credit issued under the EDC Letter of Credit Facility did not impact Pipestone Energy's borrowing capacity under the RBL, and as such provided the Company with additional liquidity. The EDC Letter of Credit Facility was repaid in full in connection with the Transaction. See note 15 for more information.

7. Lease liabilities

	September 30, 2023	December 31, 2022
	\$	\$
Balance, beginning of period	106,472	88,218
Additions	288	24,337
Interest expense (note 12)	8,812	10,301
Lease payments	(14,575)	(16,384)
Balance, end of period	100,997	106,472
Current portion	8,786	7,766
Long-term portion	92,211	98,706

Leases are negotiated on an individual basis and contain a range of terms and conditions. The discount rates used to determine lease liabilities by asset class was as follows: offices (5.0 - 8.0 percent), compressors (12.0 percent), pipelines (10.1 percent) and water infrastructure (11.5 percent).

See note 14 for details of Pipestone Energy's future contractual lease payments.

The Company included extension options in the calculation of lease liabilities, where Pipestone Energy has the right to extend the lease term at its discretion and is more than likely to exercise the extension option. The Company does not have any significant termination options and the residual amounts are not material.

Lease payments that were expensed under short-term and low dollar value exemptions in the three and six months ended September 30, 2023 and 2022 were trivial.

8. Decommissioning provisions

The Company's decommissioning provisions result from its ownership interest in liquids and natural gas assets, including well sites, facilities and gathering systems. The total decommissioning provision is estimated based on the Company's net ownership interest, estimated costs to reclaim and abandon its wells, facilities and gathering systems and the estimated timing of the costs to be incurred in future years. The estimated cash flows required to settle the provisions are approximately \$22.0 million at September 30, 2023 (December 31, 2022 – \$19.3 million). This was inflated using a rate of 2.0 percent (December 31, 2022 – 2.1 percent) to arrive at undiscounted future cash flows of approximately \$38.7 million

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(December 31, 2022 – \$35.0 million) and then discounted using a risk-free rate of 3.8 percent at September 30, 2023 (December 31, 2022 – 3.3 percent) to arrive at the present value of the decommissioning provision as disclosed below. The risk-free rate is based on Government of Canada benchmark bond rates. These obligations are to be settled based on the estimated economic lives of the underlying assets, which currently extend up to 34 years, with the majority of the costs expected to be incurred between 2045 and 2057 and are expected to be funded from general corporate resources at the time of abandonment.

The Company determined that a 2.0 percent inflation rate applied to the decommissioning provision at September 30, 2023 is reasonable and indicative of a normalized target rate in a long-term context. A 0.1 percent change in the inflation or risk-free discount rate used for calculating the decommissioning provision would impact the carrying value of the liability by approximately \$0.4 million at September 30, 2023. A 10.0 percent change to the abandonment and reclamation cost estimates used for calculating the decommissioning provision would impact the carrying value of the liability by approximately \$1.4 million at September 30, 2023.

The following reconciles the decommissioning provisions:

	September 30, 2023	December 31, 2022
	\$	\$
Balance, beginning of period	13,846	15,283
Additions	1,653	2,611
Accretion	350	327
Changes in estimates	(478)	1,140
Change in discount rates	(1,967)	(5,430)
Costs incurred	(199)	(85)
Balance, end of period	13,205	13,846

9. Convertible preferred shares

On September 15, 2020, Pipestone Energy issued 70,000 convertible preferred shares (“CP Shares”) to existing common shareholders at a price of \$970 per share for gross proceeds of \$67.9 million. The Company incurred \$1.2 million of issuance costs related to the transaction for net proceeds received of \$66.7 million. The CP Shares had a face value of \$1,000 per share or \$70.0 million (issued at a 3.0 percent or \$2.1 million discount) and entitled the holders to an annual dividend of 6.5 percent per year that was payable quarterly in-kind, or in cash after 2 years from issuance, at the sole option of Pipestone Energy. Dividends paid in-kind were accrued and compounded on a quarterly basis using a twelve-month calendar consisting of 30-day months. The CP Shares had a term of five years ending on September 15, 2025.

Holders of the CP Shares submitted voluntary conversion notices to the Company with an effective date of September 30, 2022. All 70,000 CP Shares were subsequently converted to 93,941,655 common shares on October 5, 2022. On October 5, 2022, the expensing of the CP Shares’ unamortized discount and issuance costs was accelerated, and their face value of \$70.0 million plus accrued dividends paid in-kind of \$9.9 million, totalling \$79.9 million, was reclassified from a liability to equity on the statement of financial position.

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10. Share capital

a) **Authorized** – Unlimited number of common shares with no par value.

b) **Income per share**

The following sets forth the computation of per-share amounts:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2023	2022	2023	2022
Numerator				
Income attributable to common shares for basic calculation (\$)	6,545	57,533	52,667	166,680
Effect of convertible preferred shares	-	983	-	2,902
Income attributable to common shares for diluted calculation (\$)	6,545	58,516	52,667	169,582
Denominator				
Weighted-average number of shares outstanding for basic per-share calculation (000s)	279,695	187,461	279,505	189,716
Effect of share-based compensation	-	2,862	-	2,948
Effect of convertible preferred shares	-	93,942	-	93,942
Weighted-average number of shares outstanding for diluted per-share calculation (000s)	279,695	284,265	279,505	286,606
Basic income per share attributable to common shares (\$/share)	0.02	0.31	0.19	0.88
Diluted income per share attributable to common shares (\$/share)	0.02	0.21	0.19	0.59

For the three and nine months ended September 30, 2023, there were no dilutive instruments outstanding (three and nine months ended September 30, 2022 – 2,398,619 common shares that were contingently issuable under the Company’s performance share unit plan and 593,486 stock options that were anti-dilutive were excluded from the diluted weighted average number of shares calculation).

c) **Normal course issuer bid (“NCIB”)**

On November 23, 2022, the Company announced the renewal of its NCIB. The renewed NCIB allows the Company to purchase up to 13,936,907 common shares, representing 5 percent of its 278,738,148 common shares outstanding at November 14, 2022, over a period of twelve months commencing on November 25, 2022. The total number of common shares that Pipestone Energy is permitted to purchase is subject to a daily limit of 156,214 common shares; however, the Company may make one block purchase per calendar week which exceeds this daily restriction. As of September 30, 2023, the Company has not utilized its renewed NCIB to make any further purchases to date.

In the three months ended September 30, 2022, the Company purchased 3,150,000 common shares for cancellation at a weighted-average price of \$4.18 per share and total consideration of \$13.2 million, which includes related commissions and fees. In the nine months ended September 30, 2022, the Company purchased 7,460,700 common shares for cancellation at a weighted-average price of \$4.60 per share and total consideration of \$34.5 million. The total amount paid is charged against share capital.

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d) Dividends

On August 9, 2023, the Company's Board declared a third quarterly dividend of \$0.030 per common share, which was paid on September 29, 2023, to shareholders of record at the close of business on September 15, 2023.

On May 10, 2023, the Company's Board declared a second quarterly dividend of \$0.030 per common share, which was paid on June 30, 2023, to shareholders of record at the close of business on June 15, 2023.

On November 9, 2022, the Company's Board declared an inaugural quarterly dividend of \$0.030 per common share, which was paid on March 31, 2023, to shareholders of record at the close of business on March 15, 2023.

e) Share-based compensation

Pipestone Energy's long-term incentive plan ("LTIP") allows for the granting of equity incentive units to its directors, officers, employees and consultants. The Company's current share-based compensation plan consists of stock options, performance share units ("PSUs") and restricted share units ("RSUs"). Share-based compensation paid to directors of the Company only includes RSUs.

The Company also has an employee share purchase plan ("ESPP") which allows employees to voluntarily contribute up to 10 percent of their base salary, which is then matched by the Company, and exchanged for Pipestone Energy common shares. To date all common shares have been issued from treasury for funding the ESPP. During the nine months ended September 30, 2023, the Company issued 257,465 common shares at an average price of \$2.43 per share (nine months ended September 30, 2022 – 157,535 common shares at an average price of \$4.65 per share) pursuant to the ESPP.

The following table summarizes share-based compensation expense recognized:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Non-cash share-based compensation	(9,265)	1,447	(6,534)	3,229
Cash share-based compensation	14,733	-	14,733	4,295
Total share-based compensation	5,468	1,447	8,199	7,524

The following table reconciles the changes in the number of equity compensation units outstanding:

	Balance - December 31, 2022	Granted	Share settled	Cash settled	Forfeited / cancelled	Balance - September 30, 2023
Stock options	1,711,065	866,579	(37,200)	(1,372,746)	(1,167,698)	-
PSUs	2,398,619	827,078	-	(3,225,697)	-	-
RSUs	1,852,124	1,241,338	(465,177)	(2,609,737)	(18,548)	-
Total	5,961,808	2,934,995	(502,377)	(7,208,180)	(1,186,246)	-

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During the nine months ended September 30, 2023, the Company granted 2,789,739 equity compensation units, consisting of 866,579 stock options, 756,012 PSUs and 1,167,148 RSUs (nine months ended September 30, 2022 – granted 1,506,402 equity compensation units, consisting of 593,486 stock options, 385,003 PSUs and 527,913 RSUs). In the nine months ended September 30, 2023, there were also 145,256 dividend share units granted, of which, 71,066 units were related to PSUs and 74,190 units were related to RSUs (nine months ended September 30, 2022 – no dividend share units granted). The dividend share units become part of the related equity awards and follow the same vesting conditions. The dividend share units are included with their respective PSU and RSU balances.

During the nine months ended September 30, 2023, 37,200 stock options were exercised and converted into common shares, 93,952 stock options were forfeited / cancelled, 465,177 RSUs vested and were converted into common shares and 18,548 RSUs were forfeited / cancelled (nine months ended September 30, 2022 – 421,659 stock options were exercised, 17,674 stock options were forfeited / cancelled, 1,066,020 RSUs vested and were converted into common shares and 8,274 RSUs were forfeited / cancelled).

During the nine months ended September 30, 2023, all remaining equity compensation units were cash settled. The vesting of any previously unvested awards was accelerated in connection with the change of control that occurred due to the Transaction.

519,534 RSUs and 1,132,632 PSUs were cash settled for \$3.5 million. A payout multiplier of 0.87x, in the case of PSUs, and preceding 5-day volume weighted average trading price of Pipestone Energy common shares on the TSX from the vesting date of \$2.33 per share was applied in determining the cash equivalent value of the awards.

2,090,203 RSUs, 2,093,065 PSUs and 2,446,492 stock options were cash settled for \$11.2 million. A payout multiplier of 1.00x, in the case of PSUs, and preceding 5-day volume weighted average trading price of Pipestone Energy common shares on the TSX from the vesting date of \$2.42 per share was applied in determining the cash equivalent value of the awards. There were 1,372,746 stock options with a weighted-average exercise price of \$1.61 that were considered in-the-money and cash settled for the profit margin. The remaining 1,073,746 stock options were out-of-the-money with a weighted-average exercise price of \$3.77 and were forfeited / cancelled.

At September 30, 2023, there were no equity compensation units outstanding following the cash-settlements of all remaining awards. The amount of non-cash share-based compensation expense and contributed surplus balance recognized historically was reversed in the nine months ended September 30, 2023, upon the cash settlement. The awards were originally expected to be settled in common shares per the LTIP. However, as a result of the transaction with Strathcona, the award terms were altered and surrendered for cash equivalent values. As such, the fair value and corresponding expense that was recognized over the original vesting period of the awards was reversed and the cash value settled has been recognized in the three and nine months ended September 30, 2023.

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11. Sales of liquids and natural gas

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Product type				
Condensate	89,495	90,791	257,123	280,100
Other natural gas liquids	13,025	17,996	42,175	60,295
Total natural gas liquids	102,520	108,787	299,298	340,395
Crude oil	314	413	5,295	1,649
Natural gas	31,852	65,240	100,448	196,306
Sales of liquids and natural gas	134,686	174,440	405,041	538,350

Pipestone Energy's sales are comprised of liquids and natural gas to various customers. Sales from the transfer of liquids and natural gas volumes to customers are recognized at the time when Pipestone Energy's performance obligations are fully satisfied upon transfer of these volumes to customers.

Included in accounts receivable at September 30, 2023 is \$50.3 million (December 31, 2022 - \$67.2 million) of accrued liquids and natural gas sales which have been settled subsequent to the period end. Accounts receivable is presented net of accounts payables, which arise from associated operating expenses, where the counterparties have a legal right to offset and settle payments on a net basis.

12. Financing expense

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Lease liabilities interest expense (note 7)	2,884	2,378	8,812	7,265
Interest on bank debt	3,076	2,027	6,826	5,554
Letter of credit (refund) fees	(147)	123	94	343
Standby and bank charges	145	237	801	659
Cash financing expense	5,958	4,765	16,533	13,821
Amortization of bank debt issuance costs (note 6)	582	237	1,037	522
Accretion on decommissioning provisions (note 8)	122	92	350	235
Preferred share dividends paid in-kind (note 9)	-	1,276	-	3,769
Accretion of preferred share discount (note 9)	-	101	-	263
Amortization of preferred share issuance costs (note 9)	-	61	-	162
Non-cash financing expense	704	1,767	1,387	4,951
Total financing expense	6,662	6,532	17,920	18,772

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13. Supplemental cash flow information

Changes in non-cash working capital are comprised of:

	Three months ended		Nine months ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
	\$	\$	\$	\$
Cash flows relating to:				
Accounts receivable	9,029	(6,286)	29,235	(17,597)
Prepaid expenses and deposits	(1,391)	(3,226)	(8,393)	(5,814)
Accounts payable and accrued liabilities	(21,678)	(9,308)	(12,511)	40,399
Dividend payable	-	-	(8,368)	-
Changes in non-cash working capital	(14,040)	(18,820)	(37)	16,988
Changes in non-cash working capital relating to:				
Operating activities	11,703	2,609	(7,505)	3,760
Investing activities	(25,743)	(21,429)	15,836	13,228
Financing activities	-	-	(8,368)	-
	(14,040)	(18,820)	(37)	16,988

During the three and nine months ended September 30, 2023, the Company paid \$Nil in income taxes (three and nine months ended September 30, 2022 - \$Nil). See note 12 for details of interest paid during the three and nine months ended September 30, 2023 and 2022.

14. Commitments and contingencies

The following is a summary of when Pipestone Energy's financial liabilities and commitments become due at September 30, 2023:

	2023	2024	2025	2026	2027	Thereafter	Total
	\$	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	80,103	-	-	-	-	-	80,103
Bank debt ⁽¹⁾	-	-	178,936	-	-	-	178,936
Lease payments ⁽²⁾	4,900	19,590	18,906	18,984	19,088	80,439	161,907
Gathering agreements	3,412	12,251	12,245	12,245	12,245	22,358	74,756
Processing agreements	10,046	40,104	40,142	40,290	40,438	102,442	273,462
Transport agreements	8,435	32,658	30,270	30,282	29,897	130,786	262,328
Total	106,896	104,603	280,499	101,801	101,668	336,025	1,031,492

⁽¹⁾ Excludes future interest payable on bank debt balances drawn as these amounts are variable and indeterminable.

⁽²⁾ Represents total undiscounted future lease payments due. Includes \$60.9 million of lease interest expense and \$101.0 million of lease liability principal.

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Legal, regulatory and tax

In the normal course of Pipestone Energy's operations, the Company may become involved in, named as a party to, or be the subject of, various legal, regulatory and tax proceedings. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty. Further, tax legislation and regulations, and government interpretation and administration thereof, frequently change. As a result, the Company is occasionally under review by relevant government authorities and its tax filings are subject to potential reassessments. The final outcome of these assessments may differ materially from any amounts currently estimated and recorded. Should any loss result from the resolution of these claims in excess of the amounts provided for, such additional loss will be charged to earnings in the period of resolution.

15. Subsequent events

Strategic transaction

On July 31, 2023, Pipestone Energy entered into a definitive agreement (the "Arrangement Agreement") with Strathcona, pursuant to which Strathcona agreed, subject to satisfaction of certain closing conditions, to acquire all of the issued and outstanding common shares of Pipestone Energy for 100% share consideration (the "Transaction").

The Transaction was approved by greater than 66²/₃% of the votes cast by Pipestone Energy shareholders, present in person or represented by proxy, at a special meeting of Pipestone Energy shareholders that was held on September 27, 2023. The board of directors of the Company also approved the Transaction. Pursuant to the Arrangement Agreement, the Transaction was closed on October 3, 2023, upon receiving (i) the approval of the Court of King's Bench of Alberta, (ii) the receipt of approval under the *Competition Act* (Canada), (iii) approval of the Toronto Stock Exchange with respect to the listing of Strathcona's shares, and (iv) other customary closing conditions. Further details of the Transaction are available in the various documents located under the Company's SEDAR+ profile at www.sedarplus.ca.

The Transaction was completed by a plan of arrangement under the *Business Corporations Act* (Alberta). Pursuant to the Transaction, Strathcona and Pipestone Energy were amalgamated and continued as "Strathcona Resources Ltd." which now trades on the TSX under the ticker symbol SCR. Upon completion of the Transaction, existing Pipestone Energy shareholders received 0.067967 Strathcona shares per Pipestone Energy share.