2021

FINANCIAL STATEMENTS

MANAGEMENT'S REPORT

The financial statements of Rubellite Energy Inc. ("Rubellite" or the "Company") are the responsibility of Management and have been approved by the Board of Directors of the Company. These financial statements have been prepared by Management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the Interpretations of the IFRS Interpretations Committee.

The financial statements are audited and have been prepared using accounting policies in accordance with IFRS. The preparation of Management's Discussion and Analysis is based on the Company's financial results which have been prepared in accordance with IFRS. It examines the Company's financial performance in 2021 and should be read in conjunction with the financial statements and accompanying notes.

Management is responsible for establishing and maintaining adequate internal control over the Company's financial reporting. Management believes that the system of internal controls that have been designed and maintained at the Company provide reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements. The internal accounting control process includes Management's communication to employees of policies which govern ethical business conduct.

Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Board of Directors has appointed an Audit Committee consisting of unrelated, non-management directors which meets during the year with Management and independently with the external auditors and as a group to review any significant accounting, internal control and auditing matters in accordance with the terms of the charter of the Audit Committee as set out in the Annual Information Form. The Audit Committee reviews the financial statements and Management's Discussion and Analysis before the financial statements are submitted to the Board of Directors for approval. The external auditors have free access to the Audit Committee without obtaining prior Management approval.

With respect to the external auditors, the Audit Committee approves the terms of engagement and reviews the annual audit plan, the Auditors' Report and results of the audit. It also recommends to the Board of Directors the firm of external auditors to be appointed by the shareholders.

The independent external auditors, KPMG LLP, have been appointed by the Board of Directors on behalf of the shareholders to express an opinion as to whether the financial statements present fairly, in all material respects, the Company's financial position, financial performance and cash flows in accordance with IFRS. The report of KPMG LLP outlines the scope of their examination and their opinion on the financial statements.

/s/ Susan L. Riddell Rose

Susan L. Riddell Rose
President &
Chief Executive Officer

/s/ Ryan A. Shay

Ryan A. Shay
Vice President, Finance &
Chief Financial Officer

March 9, 2022

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Rubellite Energy Inc.

Opinion

We have audited the financial statements of Rubellite Energy Inc. (the "Company"), which comprise:

- the statement of financial position as at December 31, 2021
- the statement of income and comprehensive income for the period from incorporation on July 12, 2021 to December 31, 2021
- the statement of changes in equity for the period from incorporation on July 12, 2021 to December 31, 2021
- the statement of cash flows for the period from incorporation on July 12, 2021 to December 31, 2021
- and notes to the financial statements, including a summary of significant accounting policies

Hereinafter referred to as the "financial statements".

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021, and its financial performance and its cash flows for the period from incorporation on July 12, 2021 to December 31, 2021 in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditors' Responsibilities for the Audit of the Financial Statements"*** section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the period from incorporation on July 12, 2021 to December 31, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

Evaluation of the acquisition-date fair value of oil and natural gas interests and exploration and evaluation assets acquired through a business combination

Description of the matter

We draw attention to note 2, note 3 and note 4 to the financial statements. The Company acquired oil and natural gas interests ("PP&E") and exploration and evaluation ("E&E") assets through a business combination on September 3, 2021 (the "acquisition-date"). The estimated fair value on the acquisition-date for the PP&E and E&E assets was $56.5 million and $10.1 million, respectively. The determination of the acquisition-date fair value of PP&E and E&E assets acquired through a business combination involves significant estimates, including the cash flows associated with the proved and probable oil and gas reserves, the discount rates and the sales value of undeveloped lands.

The estimate of proved and probable oil and gas reserves and the related cash flows includes significant assumptions related to:

- Forecasted oil and gas commodity prices
- Forecasted production
- Forecasted operating costs
- Forecasted royalty costs
- Forecasted future development costs.

For purposes of estimating the acquisition-date fair value of PP&E, the Company's internal reserve evaluator provided an estimate of proved and probable oil and gas reserves and the related cash flows. Independent third-party reserve evaluators are engaged at least annually to estimate proved and probable oil and gas reserves and the related cash flows from the Company's oil and natural gas interests.

Why the matter is a key audit matter

We identified the evaluation of the acquisition-date fair value of oil and natural gas interests and exploration and evaluation assets acquired through a business combination as a key audit matter. Significant auditor judgment was required in evaluating the results of our audit procedures regarding the estimate of proved and probable oil and gas reserves and the related cash flows and discount rates ("reserve value") and the sales value of undeveloped lands.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter:

With respect to the estimate of proved and probable oil and gas reserves and related cash flows as at the acquisition-date:

• We evaluated the competence, capabilities and objectivity of the internal reserve evaluator

• We compared forecasted oil and gas commodity prices to those published by other independent third-party reserve evaluators

• We evaluated the appropriateness of forecasted production and forecasted operating costs, royalty costs and future development costs assumptions by comparing to corresponding amounts in the proved and probable oil and gas reserves and the related cash flows estimated by the independent third party reserves evaluators as at December 31, 2021. We took into account changes in conditions and events affecting the Company to assess the adjustments or lack of adjustments between the acquisition-date and December 31, 2021.

With respect to the estimate of proved and probable oil and gas reserves and the related cash flows associated with the acquired PP&E as at December 31, 2021:

• We evaluated the competence, capabilities and objectivity of the independent third-party reserve evaluators engaged by the Company

• We compared the forecasted oil and gas commodity prices to those published by other independent third-party reserve evaluators

• We evaluated the appropriateness of forecasted production and forecasted operating costs, royalty costs and future development costs assumptions by comparing to 2021 historical results. We took into account changes in conditions and events affecting the Company to assess the adjustments or lack of adjustments made by the Company in arriving at the assumptions.

We involved valuation professionals with specialized skills and knowledge, who assisted in:

• Evaluating the appropriateness of the Company's acquisition-date discount rates by comparing the discount rates to market and other external data

• Assessing the reasonableness of the Company's estimate of the acquisition-date fair value of PP&E and E&E assets by comparing the Company's estimated reserve value and the sales value of undeveloped lands to market metrics and other external data.

Other Information

Management is responsible for the other information. Other information comprises:

• the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as issued by the IASB, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

• Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

• Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

• Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Company to cease to continue as a going concern.

• Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

• Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

The engagement partner on the audit resulting in this auditors’ report is Gregory Ronald Caldwell.

Chartered Professional Accountants

KPMG LLP

Calgary, Canada
March 9, 2022

RUBELLITE ENERGY INC.
Statement of Financial Position

As at		December 31, 2021
(*Cdn$ thousands*)		
Assets		
Current assets		
Cash and cash equivalents	$	15,287
Accounts receivable		6,845
Prepaid expenses and deposits		247
Fair value of derivatives (note 15)		62
		22,441
Property, plant and equipment (note 4,5)		72,661
Exploration and evaluation (note 4,6)		11,614
Deferred tax asset (note 4, 12)		9,146
Total assets	$	115,862
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$	17,004
Fair value of derivatives (note 15)		1,313
		18,317
Decommissioning obligations (note 4, 7)		1,976
Fair value of derivatives (note 15)		86
Total liabilities		20,379
Equity		
Share capital (note 4,8)		85,474
Share purchase warrants (note 4,8)		2,000
Contributed surplus (note 9)		307
Retained earnings		7,702
Total equity		95,483
Total liabilities and equity	$	115,862

See accompanying notes to the financial statements.

/s/ Holly Benson

Holly Benson

Director

/s/ Bruce Shultz

Bruce Shultz

Director

RUBELLITE ENERGY INC.
Statement of Income and Comprehensive Income

(Cdn$ thousands, except per share amounts)		For the period ended December 31, 2021[1]
Revenue		
Oil and natural gas (note 10)	$	4,923
Royalties		(491)
Realized gain on derivatives (note 15)		101
Change in fair value of derivatives (note 15)		(1,337)
		3,196
Expenses		
Production and operating		802
Transportation		410
General and administrative (note 4)		675
Transaction costs (note 4)		1,071
Share based payments (note 9)		307
Depletion (note 5)		1,389
Gain related to deferred tax on acquisition (note 4)		(9,146)
		7,688
Finance income (note 13)		(14)
Income before income tax		7,702
Taxes		
Deferred income tax expense (note 12)		–
Net income and comprehensive income		7,702
Net income per share (note 8)		
Basic	$	0.34
Diluted	$	0.33

(1) Reflects activity from incorporation on July 12, 2021 and operating results from September 3, 2021, the effective date of the completion of the Arrangement, to December 31, 2021

See accompanying notes to the financial statements.

RUBELLITE ENERGY INC.
Statement of Changes in Equity

	Share Capital (*thousands*)	(*$thousands*)	Share purchase warrants	Contributed surplus	Retained earnings	Total Equity
(Cdn$ thousands, except share amounts)						
Net income	–	$ –	$ –	$ –	$ 7,702	$ 7,702
Issued pursuant to plan of arrangement (note 4, 8)	2,128	4,141	2,000	–	–	6,141
Common shares issued, net of issue costs (note 8)	41,681	81,333	–	–	–	81,333
Share-based payments (note 9)	–	–	–	307	–	307
Balance at December 31, 2021	**43,809**	**$ 85,474**	**$ 2,000**	**$ 307**	**$ 7,702**	**$ 95,483**

(1) Reflects activity from incorporation on July 12, 2021 and operating results from September 3, 2021, the effective date of the completion of the Arrangement, to December 31, 2021.

See accompanying notes to the financial statements.

RUBELLITE ENERGY INC.
Statement of Cash Flows

(*Cdn$ thousands*)	For the period ended December 31, 2021[1]
Cash flows from operating activities	
Net income	$ 7,702
Adjustments to add (deduct) non-cash items:	
Depletion (note 5)	1,389
Share-based payments (note 9)	307
Gain related to deferred tax on acquisition (note 4)	(9,146)
Change in fair value of derivatives	1,337
Finance - accretion on decommissioning obligations (note 7)	6
Change in non-cash working capital (note 14)	(480)
Net cash flows from operating activities	1,115
Cash flows from financing activities	
Common shares issued	83,470
Share issue costs	(2,137)
Net cash flows from financing activities	81,333
Cash flows used in investing activities	
Capital expenditures (note 5, 6)	(17,358)
Acquisitions, net of cash received (note 4)	(55,322)
Change in non-cash working capital (note 14)	5,519
Net cash flows used in investing activities	(67,161)
Change in cash and cash equivalents	15,287
Cash and cash equivalents, beginning of period	–
Cash and cash equivalents, end of period	$ 15,287

(1) Reflects activity from incorporation on July 12, 2021 and operating results from September 3, 2021, the effective date of the completion of the Arrangement, to December 31, 2021.

See accompanying notes to the financial statements.

1. REPORTING ENTITY

Rubellite Energy Inc. ("Rubellite" or the "Company") is an oil exploration and production company headquartered in Calgary, Alberta that was incorporated on July 12, 2021 under the Business Corporation's Act (Alberta).

The address of the Company's registered office is 3200, 605 – 5 Avenue S.W., Calgary, Alberta, T2P 3H5.

The financial statements of the Company as at December 31, 2021, reflect activity from incorporation on July 12, 2021 and operating results for the period from September 3, 2021, the effective date of the completion of the Plan of Arrangement involving Perpetual Energy Inc. ("Perpetual"), the shareholders of Perpetual and Rubellite, to December 31, 2021.

Material transactions

On September 3, 2021, the Plan of Arrangement involving Perpetual Energy Inc ("Perpetual"), the shareholders of Perpetual, and Rubellite (the "Arrangement") was completed following approval of the plan by the shareholders of Perpetual at its special shareholder meeting held on August 31, 2021 and the receipt of the final order of the Court of Queen's Bench of Alberta approving the Plan of Arrangement on September 3, 2021. At this time, Rubellite exchanged 2.1 million Rubellite common shares and 16.7 million arrangement warrants with Perpetual shareholders for 8.2 million Perpetual common shares valued at $2.8 million. These 8.2 million Perpetual common shares held by Rubellite were delivered to Perpetual as part of the purchase consideration (Note 4). The trading of Rubellite shares held by Rubellite shareholders commenced on September 9, 2021.

All of Perpetual's Clearwater lands, wells, roads and facilities in northeast Alberta (the "Clearwater Assets") were acquired by Rubellite. Operating results reflect the period from September 3, 2021, the effective date of the completion of the Arrangement, to December 31, 2021. The Clearwater assets were acquired for aggregate consideration of $65.5 million. The consideration consisted of promissory notes totaling $59.4 million, which were paid in cash on October 5, 2021, the issuance of 680,485 Rubellite common shares valued at $1.3 million, the return of 8.2 million Perpetual common shares exchanged in the Arrangement valued at $2.8 million and issuance of warrants to purchase 4.0 million Rubellite common shares at a price of $3.00 per share for a period of five years, valued at $2.0 million (refer to Note 4).

Rubellite also completed a series of financings (the "Rubellite Financings") at $2.00 per Rubellite common share equivalent as follows:

(i) a backstopped Arrangement Warrant financing, which closed on October 5, 2021 and resulted in the issuance of 16.7 million Rubellite common shares for total proceeds of $33.5 million;

(ii) a non-brokered $20.0 million private placement financing that closed on October 5, 2021, resulting in the issuance of 10.0 million Rubellite common shares; and

(iii) a brokered $30.0 million subscription receipt financing (15.0 million subscription receipts) that closed on July 13, 2021 with cash held in escrow by a third-party trustee that was released on October 5, 2021. On October 5, 2021, each subscription receipt issued was exchanged on a one-to-one basis for 15.0 million common shares of Rubellite.

2. BASIS OF PREPARATION

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

These consolidated financial statements of the Company were approved and authorized for issue by the Board of Directors on March 9, 2022.

a) Basis of measurement

These financial statements have been prepared on a historical cost basis, except as otherwise allowed for in accordance with IFRS. These financial statements are presented in Canadian dollars which is also the Company's functional currency.

b) Critical accounting judgments and significant estimates

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenue and expenses. These judgments, estimates, and assumptions are continuously evaluated and are based on management's experience and all relevant information available to the Company at the time of financial statement preparation. As the effect of future events cannot be determined with certainty, the actual results may differ from estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about the critical judgments and significant estimates made by management are described below and in the relevant notes to the financial statements.

c) Critical accounting judgments:

The following are the critical judgments that management has made in the process of applying the Company's accounting policies. These judgments have the most significant effect on the amounts reported in the financial statements.

i) Cash-generating units ("CGUs")

The Company allocates its oil and gas properties to CGUs, identified as the smallest group of assets that generate cash inflows independent of the cash inflows of other assets or groups of assets. Determination of the CGUs is subject to management's judgement and is based on geographical proximity, shared infrastructure, and similar exposure to market risk.

ii) Identification of impairment indicators

Significant judgment is required to assess when internal or external indicators of impairment or impairment reversal exist, and impairment testing is required. Management considers internal and external sources of information including oil and gas commodity prices, expected production volumes, anticipated recoverable quantities of proved and probable oil and gas reserves and rates used to discount the related future cash flow estimates. Judgement is required to assess these factors when determining if the carrying amount of an asset or CGU is impaired, or in the case of a previously impaired asset or CGU, whether the carrying amount of the asset or CGU has been restored.

iii) Componentization

For the purposes of depletion, the Company allocates its oil and gas assets to components with similar useful lives and depletion methods. The grouping of assets is subject to management's judgment and is performed on the basis of geographical proximity and similar reserve life. The Company's oil and gas assets are depleted on a unit-of-production basis.

iv) Exploration and evaluation ("E&E") expenditures

Costs associated with acquiring oil and gas licenses and exploratory drilling are accumulated as exploration and evaluation assets pending determination of technical feasibility and commercial viability. Establishment of technical feasibility and commercial viability is subject to judgment and involves management's review of project economics, resource quantities, expected production techniques, production costs and required capital expenditures to develop and extract the underlying resources. Management uses the establishment of commercial reserves within the exploration area as the basis for determining technical feasibility and commercial viability. Upon determination of commercial reserves, E&E assets attributable to those reserves are tested for impairment and reclassified from E&E assets to a separate category within property, plant and equipment referred to as oil and gas properties.

v) Joint arrangements

Judgment is required to determine when the Company has joint control over an arrangement. In establishing joint control, the Company considers whether unanimous consent is required to direct the activities that significantly affect the returns of the arrangement, such as the capital and operating activities of the arrangement.

Once joint control has been established, judgment is also required to classify a joint arrangement. The type of joint arrangement is determined through analysis of the rights and obligations arising from the arrangement by considering its structure, legal form, and terms agreed upon by the parties sharing control. An arrangement where the controlling parties have rights to the assets and revenues, and obligations for the liabilities and expenses, is classified as a joint operation. Arrangements where the controlling parties have rights to the net assets of the arrangement are classified as joint ventures.

vi) Deferred taxes

Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and judgment as to whether there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

vii) Revenue – principal versus agent

When determining if the Company acted as a principal or as an agent in transactions, management determines if the Company obtains control of the product. As part of this assessment, management considered if the Company obtained control of the goods or services more than momentarily, in advance of transferring those goods or services to the customer. In this assessment, the Company considered indicators that it controlled the goods or services, including whether the Company was primarily responsible for the goods and services, whether the Company had inventory risk and whether the Company had discretion in establishing prices for the goods or services. Where

control was indicated, the Company has been determined to be the principal and has recorded revenue and the associated expenses on a gross basis. In other cases, the Company has been determined to be the agent and has recorded revenue net of associated expenses.

viii) Business Combinations

Judgement is required to determine whether an acquisition constitutes a business for purposes of IFRS and in determining the acquisition date.

d) Significant estimates:

The following assumptions represent the key sources of estimation uncertainty at the end of the reporting period. As future confirming events occur, the actual results may differ from estimated amounts.

i) Reserves

The Company uses estimates of proved and probable oil and gas reserves and the related cash flows in the calculation of depletion, value in use ("VIU") and fair value less costs of disposal ("FVLCD"), calculations of non-financial assets, in addition to determining the fair value of oil and gas properties in a business combination and for the purposes of determining taxable profits in the determination of deferred tax assets. Estimates of proved and probable oil and gas reserves and their related cash flows are based upon a number of significant assumptions, such as forecasted production, oil and gas commodity prices, operating costs, royalty costs, and future development costs. Additional estimates are made in relation to the marketability of oil and gas, and the assumed effects of regulation by government agencies. The geological, economic and technical factors used to estimate reserves may change from period to period. Changes in the reported reserves could have a material impact on the carrying values of the Company's oil and gas properties, the calculation of depletion and depreciation, and the timing of decommissioning expenditures.

Independent third-party reserve evaluators are engaged at least annually to estimate proved and probable oil and gas reserves and the related cash flows from the Company's interest in oil and gas properties. This evaluation of proved and proved plus probable oil and gas reserves is prepared in accordance with the reserve definitions contained in National Instrument 51-101 and the COGE Handbook.

The Company is also required to estimate the recoverable amount of exploration and evaluation assets, which consists of undeveloped lands, for impairment testing and the fair value in a business combination. The recoverable amount and fair value is based on relevant industry sales value data. The Company may also engage independent third-party land evaluators to estimate the fair value of undeveloped lands.

ii) Business combinations

The determination of the acquisition-date fair value of oil and natural gas interests and exploration and evaluation assets acquired through a business combination involves significant estimates, including the cash flows associated with the proved and probable oil and gas reserves, the discount rates and the sales value of undeveloped lands.

iii) Provisions for decommissioning obligations

Decommissioning, abandonment, and site reclamation expenditures for production facilities, wells, and pipelines are expected to be incurred by the Company over many years into the future. Amounts recorded for decommissioning obligations and the associated accretion are calculated based on estimates of the extent and timing of decommissioning activities, future site remediation regulations and technologies, inflation, liability specific discount rates and related cash flows. The provision represents management's best estimate of the present value of the future abandonment and reclamation costs required. Actual abandonment and reclamation costs could be materially different from estimated amounts.

iv) Derivative financial instruments

Derivatives are measured at fair value on each reporting date. Fair value is the price that would be received or paid to exit the position as of the measurement date. The Company uses estimated external forecasted market price curves available at period end and the contracted volumes over the contracted term to determine the fair value of each contract. Changes in market pricing between period end and settlement of the derivative contracts could have a material impact on financial results related to the derivatives.

v) Share-based payments

Share options and other share based compensation issued by the Company are recorded at fair value using the Black Scholes option pricing model. In assessing the fair value of share options, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently in these financial statements.

a) Business combinations

The purchase method of accounting is used to account for acquisitions of businesses and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their acquisition date fair values. If the consideration of acquisition given up is less than the fair value of the net assets received, the difference is recognized immediately in the income statement. If the consideration of acquisition is greater than the fair value of the net assets received, the difference is recognized as goodwill on the statement of financial position. Acquisition costs incurred are expensed. There is an option to apply a concentration test that permits a simplified assessment of whether an acquired set of activities and assets is in fact a business. The optional concentration test is met if substantially all of the fair value of the assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. An entity may make such an election separately for each transaction or other event. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

b) Financial instruments

Financial instruments comprise cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, subscription receipt and non-brokered placement payable and promissory notes. These financial instruments are recognized initially at fair value, net of any directly attributable transaction costs.

i) Classification and measurement of financial assets

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at fair value through profit or loss (“FVTPL”):

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortized cost are measured at FVTPL. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following accounting policies apply to the subsequent measurement of financial assets:

a) Financial assets at FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

b) Financial assets at amortized cost

These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

ii) Classification and measurement of financial liabilities

Financial liabilities are classified and measured at amortized cost or FVTPL. A financial liability is classified at FVTPL if it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

The Company has classified cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities as amortized cost.

iii) Share capital and warrants

Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

iv) Derivative assets and liabilities

The Company has entered into certain financial derivative contracts to manage the exposure to market risks from fluctuations in commodity prices. The Company has not designated its financial derivative contracts as effective accounting hedges, and thus has not applied hedge

accounting. All financial derivative contracts are designated as FVTPL and recorded as derivatives on the statement of financial position at fair value. Changes in the fair value of the derivatives are recognized in net income (loss).

c) Jointly owned assets

Many of the Company's oil and gas activities involve jointly owned assets which are not conducted through a separate entity. The financial statements include the Company's proportionate share of these jointly owned assets, liabilities, revenues and expenses.

d) Property, plant and equipment ("PP&E")

i) Production and development costs

Items of property, plant and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. The initial cost of property, plant and equipment includes the purchase price or construction costs, costs that are directly attributable to bringing the asset into commercial operations, the initial estimate of decommissioning costs, and borrowing costs for qualifying assets.

Significant parts of an item of property, plant and equipment, including oil and gas properties, that have different useful lives from the life of the area or facility in general, are accounted for as separate items.

Gains and losses on disposition of an item of property, plant and equipment, including oil and gas properties, are determined by comparing the proceeds from disposition with the carrying amount of property, plant and equipment and are recognized in net profit or loss. Proceeds may include cash, or other non-cash consideration such as retained drilling rights which are fair valued at the time of disposition. The carrying amount of any replaced or disposed item of property, plant and equipment is derecognized.

ii) Subsequent costs

Costs incurred after the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as property, plant and equipment only when they increase the future economic benefits embodied in the specific asset to which they relate. Such capitalized property, plant and equipment generally represent costs incurred in developing proved and/or probable oil and gas reserves and bringing on or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. All other expenditures including the costs of the day-to-day servicing of property, plant and equipment are recognized as production and operating expense in net profit or loss as incurred.

iii) Depletion and depreciation

The net carrying amount of development or production assets is depleted using the unit-of-production method by reference to the ratio of production in the period to the related proved and probable oil and gas reserves, considering estimated forecasted future development costs necessary to bring those reserves into production and future decommissioning costs. The forecasted future development cost estimates are reviewed by independent third-party reserve evaluators at least annually.

Depreciation methods, useful lives and residual values are reviewed at each period end date for all classes of property, plant, and equipment.

e) Exploration and evaluation expenditures

Pre-license costs, geological and geophysical costs, and lease rentals of undeveloped properties are recognized in net profit or loss as incurred.

E&E costs, consisting of the costs of acquiring oil and gas licenses, are capitalized initially as E&E assets according to the nature of the assets acquired. Costs associated with drilling exploratory wells in an undeveloped area are capitalized as E&E costs. The costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability. When technical feasibility and commercial viability are determined, the relevant expenditure is transferred to property, plant and equipment as oil and gas properties, after impairment is assessed and any applicable impairment loss is recognized in net profit or loss.

The Company's E&E assets consist of undeveloped lands. Gains and losses on disposition of E&E assets are determined by comparing the proceeds from disposition with the carrying amount and are recognized in net profit or loss.

f) Impairment

i) Financial assets

The Company has elected to measure loss allowances for trade receivables and contract assets at an amount equal to lifetime expected credit losses ("ECLs"). The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Loss allowances for financial assets are deducted from the gross carrying amount of the assets. Impairment losses on financial assets are presented under "other expenses" in the statements of income and comprehensive income.

ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than E&E assets, are reviewed at each period end date to determine whether there are any internal or external indicators of impairment or impairment reversal. If any such indicator exists, then the recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together at a CGU level. The estimated recoverable amount of an asset or a CGU is determined based on the higher of its FVLCD and its VIU. FVLCD is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The FVLCD of oil and gas properties is generally determined as the net present value of estimated future cash flows expected to arise from the continued use of the CGU and its eventual disposition, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU. In determining VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. VIU is generally the future cash flows expected to be derived from production of proved and probable oil and gas reserves estimated by the Company's independent third-party reserve evaluators.

An impairment is recognized if the carrying amount of a CGU exceeds the estimated recoverable amount for that CGU. The Company determines the estimated recoverable amount by using the greater of FVLCD and the VIU. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amount of assets in the unit (group of units) on a pro rata basis. Impairment losses are recognized in net income or loss. The Company has one CGU, the Clearwater CGU.

E&E assets are assessed for impairment within the related CGU at the time that any triggering facts and circumstances suggest that the carrying amount exceeds the estimated recoverable amount as well as upon their eventual reclassification to oil and gas properties in property, plant and equipment.

In respect of other assets, impairment losses recognized in prior years are assessed at each period end date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

g) Share-based payments

Fixed equity awards granted under the equity-settled share-based payment plans and agreements are measured at grant-date fair value. Fair values are determined by means of an option pricing model using the exercise price of the equity instrument granted, the share price at the grant date, the expected life of the grant based on the vesting date and expiry date, estimates of share price volatility, and interest rates over the expected contractual life of the equity award. A forfeiture rate is estimated on the grant date and is subsequently adjusted to reflect the actual number of options that vest.

The costs of the equity-settled share-based payments are recognized within the statement of income and comprehensive income, with a corresponding increase in contributed surplus over the vesting period. Upon exercise or settlement of an equity-based instrument, consideration received, and associated amounts previously recorded in contributed surplus are recorded to share capital.

h) Decommissioning obligations

The Company's activities give rise to dismantling, decommissioning, and site disturbance remediation activities. A provision is recorded for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's estimate of the extent and timing of expenditures required to settle the obligation at the statement of financial position date, using a risk-free interest rate not adjusted for credit risk. Subsequent to the initial measurement, the obligation is adjusted at the end of each reporting period to reflect the passage of time, changes in the timing and estimate of future cash flows underlying the obligation, and changes in the risk-free rate. The accretion of the provision due to the passage of time is recognized in net loss whereas changes in the provision arising from changes in estimated cash flows or changes in the risk-free rate are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

i) Revenue

Revenue from the sale of heavy crude oil is recognized based on the consideration specified in contracts with customers. The Company recognizes revenue when control of the product transfers to the buyer and collection is reasonably assured. This is generally at the point in time when the customer obtains legal title to the product which is when it is physically transferred to the transportation method agreed upon.

j) Income tax

Income tax expense comprises current and deferred components. Income tax expense is recognized in net income or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the period end date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the period end date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each period end date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

k) Income or loss per share amounts

Basic income or loss per share is calculated by dividing the net income or loss by the weighted average number of common shares outstanding during the period. For the dilutive net income per share calculation, the weighted average number of shares outstanding is adjusted for the potential number of shares which may have a dilutive effect on net income.

Diluted income per share is calculated giving effect to the potential dilution that would occur if outstanding warrants, share options, restricted share units or performance share units were exercised or converted into common shares. The weighted average number of diluted shares is calculated in accordance with the treasury stock method for warrants, share options, restricted rights and performance share rights. The treasury stock method assumes that the proceeds received from the exercise of all potentially dilutive instruments are used to repurchase common shares at the average market price.

l) Changing Regulation

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

4. ACQUISITION OF CLEARWATER ASSETS AND COMMENCEMENT OF OIL AND GAS OPERATIONS

On September 3, 2021, the effective date of the completion of the Arrangement, Rubellite became a standalone public entity and began trading on the Toronto Stock Exchange on September 9, 2021. The Clearwater Assets were acquired for aggregate consideration of $65.5 million. The consideration consisted of promissory notes totalling $59.4 million, which were paid in cash on October 5, 2021, the issuance of 680,485 Rubellite common shares valued at $1.3 million, the return of 8.2 million Perpetual common shares exchanged in the Arrangement valued at $2.8 million and issuance of warrants to purchase 4.0 million Rubellite common shares at a price of $3.00 per share for a period of five years, valued at $2.0 million.

The acquisition has been accounted for as a business combination using the acquisition method of accounting, whereby the assets acquired and the liabilities assumed are recorded at the estimated fair value on September 3, 2021. There were $1.1 million of transaction costs incurred by the Company and expensed through earnings. In conjunction with the Arrangement, Rubellite entered into a Management Services Agreement and Operating Agreement ("MSA") with Perpetual whereby Perpetual receives payment for certain technical and administrative services provided to Rubellite on a cost recovery basis. For the year ended December 31, 2021, the amount of general and administrative costs charged to Rubellite through the MSA was $0.4 million. As a result of various other transactions between the parties, the Company recorded an accounts receivable of $3.9 million owing from Perpetual and an accounts payable of $3.8 million owing to Perpetual.

The determination of the purchase price, based on management's estimate of fair values is as follows:

		Total
Net assets acquired:		
Oil and natural gas interests (note 5)	$	56,489
Exploration and evaluation assets (note 6)		10,067
Cash		4,051
Net working capital, excluding cash		(4,873)
Decommissioning provisions (note 7)		(220)
Net assets acquired	**$**	**65,514**

With the recognition of a $9.1 million deferred tax asset at September 3, 2021, a gain of $9.1 million was recognized in net income.

Purchase consideration:

Promissory note – Perpetual[1]		**53,600**
Promissory note - 197Co[2]		5,773
Consideration to be paid in cash		**59,373**
Rubellite common shares[3]		1,361
Perpetual common shares returned[4]		2,780
Share purchase warrants[5]		2,000
Total purchase consideration	**$**	**65,514**

(1) Promissory notes owed to Perpetual, secured by certain Clearwater properties, and due on demand, which were settled in cash on October 5, 2021.
(2) Promissory notes assumed by Rubellite from Perpetual and owing to 1974918 Alberta Ltd. ("197Co"), a company controlled by Perpetual's President and Chief Executive Officer. These promissory notes are secured by certain Clearwater properties, and due on demand, and were settled in cash on October 5, 2021.
(3) Rubellite issued to Perpetual 680,485 Rubellite Shares valued at $1.3 million.
(4) Rubellite returned to Perpetual 8.2 million Perpetual common shares valued at $2.8 million received on the initial capitalization of the Company.
(5) Represents the estimated value of 4.0 million Rubellite common share purchase warrants at $3.00 per share exercise price and valued at $2.0 million. Share purchase warrants have been valued using the Black Scholes model using the following assumptions: Expected volatility of 40%, risk-free interest rate of 1.2%, dividend yield of nil, contractual life of 5-years, share price at grant date of $2.00 and exercise price of $3.00.

The above amounts to determine the net assets acquired are estimates, which were made by management at the time of preparation of these financial statements based on information then available. For purposes of estimating the acquisition-date fair value of oil and natural gas interests, the Company's internal reserve evaluator provided an estimate of proved and probable oil and gas reserves and the related cash flows. Exploration and evaluation assets were fair valued based on an independent third party report reflecting the estimated sales value of undeveloped land. The estimated proved and probable oil and natural gas reserves and related cash flows were discounted at a rate based on what a market participant would have paid as well as estimated by market metrics in the prevailing areas at the time. The fair value of decommissioning obligations was initially estimated using a credit adjusted risk-free rate of 7.0% and an implied inflation rate of 1.73%.

5. PROPERTY, PLANT AND EQUIPMENT

		Oil and Natural Gas Interests
Cost		
Acquisitions (note 4)	**$**	**56,489**
Change in decommissioning obligations related to PP&E (note 7)		**1,750**
Additions		**15,811**
December 31, 2021	**$**	**74,050**
Accumulated depletion		
Depletion	**$**	**1,389**
December 31, 2021	**$**	**1,389**
Carrying amount		
December 31, 2021	**$**	**72,661**

As at December 31, 2021, forecasted future development costs of $46.5 million associated with proved and probable oil and gas reserves were included in the depletion calculation and an estimated $0.4 million of salvage value for production equipment was excluded.

a) Cash-generating units and impairment

In accordance with IFRS, the Company is required to assess when internal or external indicators of impairment exist, and impairment testing is required. At December 31, 2021, the Company conducted an assessment of indicators of impairment for the Company's cash-generating unit ("CGU"). In performing the assessment, management determined there were no indicators of impairment.

6. EXPLORATION AND EVALUATION

		December 31, 2021
Acquisitions (note 4)	**$**	**10,067**
Additions		**1,547**
Balance, end of period	**$**	**11,614**

Impairment of E&E assets

E&E assets are tested for impairment when internal or external indicators of impairment exist as well as upon their eventual reclassification to oil and natural gas interests in PP&E. At December 31, 2021, the Company conducted an assessment of indicators of impairment for the Company's E&E assets. In performing the assessment, management determined there were no indicators of impairment.

7. Decommissioning obligations

The following table summarizes changes in decommissioning obligations:

		December 31, 2021
Obligations incurred	$	**894**
Obligations acquired (note 4)		**220**
Change in rate on acquisition		**496**
Revisions to estimates		**360**
Accretion		**6**
Total decommissioning obligations	**$**	**1,976**

Decommissioning obligations are estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities, and the estimated timing of the costs to be incurred in future periods.

The increase in the provision due to the passage of time, which is referred to as accretion, is recognized as non-cash finance expense in the statements of income or loss and comprehensive income or loss. Decommissioning obligations are further adjusted at each period end date for changes in the risk-free interest rate, after considering additions and dispositions of PP&E. Decommissioning obligations are also adjusted for revisions to future cost estimates and the estimated timing of costs to be incurred in future periods.

The change in rate on acquisition reflects the impact of discounting the decommissioning obligation at the credit adjusted discount rate of 7% at the time of acquisition and then adjusting to the risk-free rate thereafter.

The following significant assumptions were used to estimate the Company's decommissioning obligations:

		December 31, 2021
Undiscounted obligations	**$**	**1,913**
Average risk-free rate		**1.68%**
Inflation rate		**1.82%**
Expected timing of settling obligations		**25 years**

8. SHARE CAPITAL

a) Authorized

Authorized capital consists of an unlimited number of common shares.

b) Issued and outstanding

			December 31, 2021
	Shares (*thousands*)		**Amount (*$thousands*)**
Balance, July 12, 2021	–	$	–
Issued pursuant to plan of arrangement	**2,128**		**4,141**
Issued pursuant to warrant exercise	**16,681**		**33,470**
Issued pursuant to private placement	**10,000**		**20,000**
Issued pursuant to subscription receipt financing	**15,000**		**30,000**
Share issue costs	–		**(2,137)**
Balance, December 31, 2021	**43,809**	**$**	**85,474**

As of December 31, 2021 there were 4.0 million Rubellite common share purchase warrants exercisable at $3.00 per share with an expiry date of September 3, 2026.

As described in note 4, as part of the purchase consideration for the acquisition of the Clearwater Assets, Rubellite issued Perpetual 680,485 Rubellite Shares valued at $1.3 million, and Rubellite returned to Perpetual 8.2 million Perpetual common shares valued at $2.8 million received on the initial capitalization of the Company.

Rubellite completed a series of financings (the "Rubellite Financings") at $2.00 per Rubellite common share equivalent as follows:

(i) a backstopped Arrangement Warrant financing, which closed on October 5, 2021 and resulted in the issuance of 16.7 million Rubellite common shares for total proceeds of $33.5 million;

(ii) a non-brokered $20.0 million private placement financing that closed on October 5, 2021, resulting in the issuance of 10.0 million Rubellite common shares; and

(iii) a brokered $30.0 million subscription receipt financing (15.0 million subscription receipts) that closed on July 13, 2021 with cash held in escrow by a third-party trustee that was released on October 5, 2021. On October 5, 2021, each subscription receipt issued was exchanged on a one-to-one basis for 15.0 million common shares of Rubellite.

c) Per share information

(*thousands, except per share amounts*)	For the period ended December 31, 2021
Net income	**$ 7,702**
Weighted average common shares outstanding – basic	**22,702**
Weighted average common shares outstanding – diluted	**23,228**
Net income per share – basic	**$ 0.34**
Net income per share – diluted	**$ 0.33**

Per share amounts have been calculated using the weighted average number of common shares outstanding. For the period ended December 31, 2021, 5.1 million common shares issuable upon the exercise and/or settlement of warrants, share options, restricted share units and performance share units were included in the diluted weighted average number of common shares outstanding.

9. SHARE-BASED PAYMENTS

The following tables summarize information about options and performance and restricted share awards outstanding:

Compensation awards

(*thousands*)	**Share options**	**Performance share units**	**Restricted share units**	**Total**
Granted – September 8, 2021	731	185	187	1,103
Granted – October 12, 2021	13	-	8	21
Granted – October 15, 2021	13	-	8	21
December 31, 2021	**757**	**185**	**203**	**1,145**

During the period ended December 31, 2021, the Company granted 1.1 million share-based payment awards, comprised of share options, performance share units and restricted share units.

The components of share-based payment expense are as follows:

	December 31, 2021
Share options	**$ 126**
Restricted share units	**64**
Performance share units	**117**
Share-based payment expense	**$ 307**

a) Share options

Rubellite's share option plan provides a long-term incentive to any director, executive officer, employee or consultant associated with the Company's long-term performance. The Board of Directors administers the share option plan and determines participants, number of share options and terms of vesting. The exercise price of the share options granted shall not be less than the value of the weighted average trading price for the Company's common shares for the five trading days immediately preceding the date of grant. Share options granted vest evenly over four years, commencing on the first anniversary, with expiry occurring five years after issuance.

The Company used the Black Scholes pricing model to calculate the estimated fair value of the share options at the date of grant. The following assumptions were used to arrive at the estimate of fair value as at the date of grant:

	2021
Dividend yield (%)	**0.0**
Forfeiture rate (%)	**5.0**
Expected volatility (%)	**60.0**
Risk-free interest rate (%)	**1.12**
Contractual life (years)	**5.0**
Weighted average share price at grant date	**$ 2.02**
Weighted average fair value at grant date	**$ 1.04**

b) Performance share units

The Company has an equity-settled performance share units plan for the Company's executive officers. Performance share units granted under the performance share units plan vest two years after the date upon which the performance units were granted. The performance units that vest and become redeemable for equivalent common shares are a multiple of the performance units granted, dependent upon the achievement of certain performance metrics over the vesting period. Vested performance units can be settled in cash or in common shares of the Company at the discretion of the Board of Directors. Performance units are forfeited if participants of the performance share units plan leave the organization other than through retirement or termination without cause prior to the vesting date.

The fair value of a performance share units award is determined at the date of grant by using the closing price of common shares multiplied by the estimated performance multiplier. As at December 31, 2021, performance multipliers of 2.0 have been assumed. Fluctuations in share-based payments may occur due to changes in estimates of performance outcomes. The amount of share-based payment expense is reduced by an estimated forfeiture rate of 5% for outstanding awards. The fair value of performance share rights granted during the period ended December 31, 2021 was $2.00 per award.

c) Restricted share units

The Company has a restricted share unit plan for any director, officer, employee or consultant. The restricted share units vest evenly over a two year period after the date upon which the restricted share units were granted. The restricted share units that vest can be settled in cash or in common shares of the Company.

This fair value is recognized as share-based payment expense with a corresponding increase to contributed surplus. The weighted average fair value of performance share rights granted during the period ended December 31, 2021 was $2.05 per award.

10. REVENUE

The Company sells its production pursuant to fixed or variable price contracts. The transaction price for variable priced contracts is based on the commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Under the contracts, the Company is required to deliver fixed or variable volumes of crude oil as may be applicable to the contract counterparty. Revenue is recognized when a unit of production is delivered to the contract counterparty. The amount of revenue recognized is based on the agreed transaction price, whereby any variability in revenue relates specifically to the Company's efforts to transfer production, and therefore the resulting revenue is allocated to the production delivered in the period during which the variability occurs. As a result, none of the variable revenue is considered constrained.

The Company's properties currently produce heavy crude oil and volumes are mostly sold under floating contracts of varying price and volume terms of up to one year. Revenues are typically collected on the 25th day of the month following production. Included in accounts receivable at December 31, 2021 is $1.6 million of oil revenue related to December 2021 production.

11. BANK DEBT

During the fourth quarter of 2021, the Company entered into a first lien credit facility with a syndicate of lenders to establish a $3.0 million revolving credit facility with an initial term to May 31, 2022 and which may be extended for a further twelve months to May 31, 2023 subject to lender approval. The Credit Facility is secured by general first lien security agreements covering all present and future property of the Company, and is not subject to any financial covenants. As at December 31, 2021, nil was drawn against the credit facility.

Subsequent to December 31, 2021, the Company's credit facility borrowing limit was increased to $25.0 million with an initial term to May 31, 2023 and which may be extended for a further twelve months to May 31, 2024 subject to lender approval. If not extended by May 31, 2023, all outstanding advances would be repayable on May 31, 2024. The next semi-annual borrowing base redetermination is scheduled on or before November 30, 2022.

12. DEFERRED INCOME TAXES

The provision for income taxes in the financial statements differs from the result that would have been obtained by applying the combined federal and provincial tax rate to the Company's net income before income tax. This difference results from the following items:

	December 31, 2021
Income before income tax	**$ 7,702**
Combined federal and provincial tax rate	**23%**
Computed income tax expense	**1,771**
Increase (decrease) in income taxes resulting from:	
Non-deductible expenses	**71**
Income earned prior to Plan of Arrangement	**149**
Gain related to deferred tax on acquisition	**(2,103)**
Other	**(460)**
Change in unrecognized deferred tax assets	**572**
Deferred income tax expense	**$ -**

The following table summarizes the deferred income tax assets of the Company:

	December 31, 2021
Assets (liabilities):	
Property, plant and equipment	**6,399**
Decommissioning obligations	**454**
Fair value if derivatives	**307**
Share purchase warrants	**460**
Share and debt issue costs	**46**
Non-capital losses	**1,480**
Total deferred income tax assets	**9,146**

As at December 31, 2021, the Company had approximately $6.5 million of non-capital losses available for future use. The unused non-capital losses expire in 2041. The oil and gas properties and facilities owned by the Company have an approximate tax basis of $234.0 million available for future use as deductions from taxable income.

Deferred income tax assets have not been recognized in relation to $122.0 million of temporary differences under property, plant and equipment because it is not probable that future taxable profit will be available against which the Company can utilize the benefits.

13. FINANCE INCOME AND EXPENSE

		December 31, 2021
Interest income	$	(20)
Accretion (note 7)		6
Finance (income) expense	**$**	**(14)**

14. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital are comprised of the following:

		December 31, 2021
Accounts receivable	$	(6,845)
Prepaid expenses and deposits		(247)
Accounts payable and accrued liabilities		17,004
Working capital acquired (note 4)		(4,873)
	$	5,039
Related to operating activities		(480)
Related to investing activities		5,519
	$	5,039

15. FINANCIAL RISK MANAGEMENT

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and has implemented and monitors compliance with risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from joint venture partners, oil and natural gas marketers and derivative contract counterparties.

Receivables from oil and natural gas marketers are normally collected on the 25th day of the month following sales. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large, well established purchasers. The Company has not experienced any significant collection issues with its oil and gas marketing receivables.

The Company manages the credit exposure related to derivatives by engaging in risk management transactions with credit worthy counterparties.

The combined carrying amount of cash and cash equivalents, accounts receivable and fair value of derivative assets at December 31, 2021 was $22.1 million, representing the Company's maximum credit exposure. The total amount of accounts receivable 90 days past due is nominal at December 31, 2021.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure that it will have sufficient sources of liquidity available, under both normal and stressed conditions.

c) Market risk

Market risk is the risk that changes in market prices such as foreign exchange rates, commodity prices, and interest rates will affect the Company's net loss or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

The Company utilizes financial derivatives to manage market risks related to commodity prices. All such transactions are conducted in accordance with the Company's Risk Management Policy, which has been approved by the Board of Directors.

As at December 31, 2021, the Company had the following crude oil risk management contracts, with a short-term mark-to-market asset of $0.1 million, a short-term mark-to-market liability of $1.3 million, and a long-term mark-to-market liability of $0.1 million.

Remaining Period	Type of Contract	Quantity (bbls/d)	Pricing Point	Contract Price ($/bbl)	Mark-to-Market Asset (Liability) ($000's)
Jan 2022 – Mar 2022	Fixed swap	200	WTI	USD 75.00	6
Jan 2022 – Jun 2022	Fixed swap	200	WTI	CAD 95.46	68
Jan 2022 – Jun 2022	Fixed swap	300	WTI	CAD 90.07	(190)
Feb 2022 – Dec 2022	Fixed swap	300	WTI	CAD 88.64	(250)
Apr 2022 – Dec 2022	Fixed swap	300	WTI	CAD 87.45	(246)
Jul 2022 – Dec 2022	Fixed swap	300	WTI	CAD 87.25	(117)
Jan 2022 – Dec 2022	Fixed swap	200	WCS	CAD 76.15	126
Jan 2023 – Dec 2023	Fixed swap	100	WTI	USD 64.50	(86)
Feb 2022	Fixed swap	100	WCS	CAD 69.50	(22)
Mar 2022	Fixed swap	100	WCS	CAD 70.40	(42)
Jan 2022 – Jun 2022	Fixed Differential swap	200	WCS	CAD 20.16	(87)
Jan 2022 – Jun 2022	Fixed Differential swap	300	WCS	CAD 21.70	(215)
Feb 2022 – Dec 2022	Fixed Differential swap	300	WCS	CAD 18.30	(141)
Apr 2022 – Dec 2022	Fixed Differential swap	300	WCS	CAD 18.05	(106)
Jul 2022 – Dec 2022	Fixed Differential swap	300	WCS	CAD 17.55	(35)

As at December 31, 2021, if future WTI and WCS oil prices changed by CAD $5.00 per bbl with all other variables held constant, the fair value of derivatives for the period would change by $4.0 million.

Subsequent to December 31, 2021, the Company entered into the following crude oil risk management contracts:

Period	Type of Contract	Quantity (bbls/d)	Pricing Point	Contract Price ($/bbl)
Apr 2022 – Jun 2022	Fixed swap	200	WTI	CAD 104.61
Jul 2022 – Dec 2022	Fixed swap	200	WTI	CAD 103.30
Mar 2022 – Dec 2022	Fixed Differential swap	200	WCS	CAD 17.25
Jan 2023 – Dec 2023	Fixed Differential swap	200	WCS	CAD 17.75

Fair value of financial assets and liabilities

The Company's fair value measurements are classified into one of the following levels of the fair value hierarchy:

Level 1 – inputs represent unadjusted quoted prices in active markets for identical assets and liabilities. An active market is characterized by a high volume of transactions that provides pricing information on an ongoing basis.

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These valuations are based on inputs that can be observed or corroborated in the marketplace, such as market interest rates or forecasted commodity prices.

Level 3 – inputs for the asset or liability are not based on observable market data.

The Company aims to maximize the use of observable inputs when preparing calculations of fair value. Classification of each measurement into the fair value hierarchy is based on the lowest level of input that is significant to the fair value calculation.

The fair value of cash and cash equivalents, accounts receivable, deposits, and accounts payable and accrued liabilities approximate their carrying amounts due to their short terms to maturity. They are classified as amortized cost, level 1.

The fair value of derivative financial instruments are classified as FTPL, level 2.

The fair value of financial assets and liabilities, excluding working capital, is attributable to the following fair value hierarchy levels:

As at December 31, 2021	Gross	Netting[1]	Carrying Amount	Fair value Level 1	Fair value Level 2	Fair value Level 3
Financial assets						
Fair value through profit and loss						
Fair value of derivatives	200	(138)	62	–	62	–
Financial liabilities						
Fair value through profit and loss						
Fair value of derivatives	(1,537)	138	(1,399)	–	(1,399)	–

(1) Derivative assets and liabilities presented in the statement of financial position are shown net of offsetting assets or liabilities where the arrangement provides for the legal right and intention for net settlement exists.

d) Capital risk

The Company's policy is to maintain a strong but flexible capital structure so as to maintain investor, creditor and market confidence and to sustain its future development. The Company manages its capital structure and adjusts it in light of changes in economic conditions. The Company's capital structure consists of shareholders' equity and working capital. The Company also has access to its $3.0 million first lien credit facility with a syndicate of lenders, which remains undrawn at December 31, 2021. Subsequent to December 31, 2021, the Company's borrowing base was increased to $25.0 million.

16. KEY MANAGEMENT PERSONNEL

The Company has defined key management personnel as executive officers, as well as the Board of Directors, as they have the collective authority and responsibility for planning, directing and controlling the activities of the Company.

	December 31, 2021
Short-term compensation	$ 58
Share-based payments	103
Total	**$ 161**

The short-term compensation for key management personnel is recognized through the Management Service Agreement with Perpetual and is recognized in general and administrative expense.