



CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

**REFLECTS ACTIVITY FROM INCORPORATION ON JULY 12, 2021 AND OPERATING RESULTS
FROM SEPTEMBER 3, 2021, THE EFFECTIVE DATE OF THE ARRANGEMENT, TO SEPTEMBER
30, 2021**

RUBELLITE ENERGY INC.
Condensed Interim Statements of Financial Position
(unaudited)

As at	September 30, 2021
<i>(Cdn\$ thousands)</i>	
Assets	
Current assets	
Cash and cash equivalents	\$ 4,153
Restricted cash (note 4)	50,000
Accounts receivables and prepaids	2,089
	<u>56,242</u>
Property, plant and equipment (note 4,5)	56,888
Exploration and evaluation (note 4,6)	10,094
Deferred tax asset (note 4)	9,146
Total assets	<u>\$ 132,370</u>
Liabilities	
Current liabilities	
Accounts payable and accrued liabilities	\$ 7,116
Subscription receipts and non-brokered placement (note 4)	50,000
Promissory Notes (note 4)	59,373
	<u>116,489</u>
Decommissioning obligations (note 4,7)	763
Total liabilities	<u>117,252</u>
Equity	
Share capital (note 4,8)	4,141
Share purchase warrants (note 4,8)	2,000
Contributed surplus (note 9)	10
Retained earnings	8,967
Total equity	<u>15,118</u>
Total liabilities and equity	<u>\$ 132,370</u>
Subsequent events (note 4, 12)	

See accompanying notes to the condensed interim financial statements.

/s/ Holly Benson

/s/ Bruce Shultz

Holly Benson

Bruce Shultz

Director

Director

RUBELLITE ENERGY INC.
Condensed Interim Statements of Income and Comprehensive Income
(unaudited)

For the period ended
September 30, 2021⁽¹⁾

(Cdn\$ thousands, except per share amounts)

Revenue		
Oil and natural gas (note 10)	\$	992
Royalties		(87)
		<u>905</u>
Expenses		
Production and operating		118
Transportation		87
General and administrative		192
Transaction costs (note 4)		382
Share based payments (note 9)		10
Finance – accretion of decommissioning liabilities (note 7)		1
Depletion (note 5)		294
Gain related to deferred tax on acquisition (note 4)		(9,146)
Net income and comprehensive income		<u>8,967</u>
Net income per share (note 8)		
Basic	\$	12.34
Diluted	\$	<u>5.16</u>

⁽¹⁾ Reflects activity from incorporation on July 12, 2021 and operating results from September 3, 2021, the effective date of the Arrangement, to September 30, 2021

See accompanying notes to the condensed interim financial statements.

RUBELLITE ENERGY INC.
Condensed Interim Statements of Changes in Equity
(unaudited)

	Share capital		Share	Contributed	Retained	Total
	(thousands)	(\$thousands)	purchase	surplus	earnings	Equity
			warrants			
<i>(Cdn\$ thousands, except share amounts)</i>						
Net income	-	\$ -	\$ --	\$ -	\$ 8,967	\$ 8,967
Issued pursuant to plan of arrangement (note 4,8)	2,128	4,141	2,000			6,141
Share-based payments (note 9)	-	-	-	10		10
Balance at September 30, 2021	2,128	\$ 4,141	\$ 2,000	\$ 10	\$ 8,967	\$ 15,118

⁽¹⁾ Reflects activity from incorporation on July 12, 2021 and operating results from September 3, 2021, the effective date of the Arrangement, to September 30, 2021

See accompanying notes to the condensed interim financial statements.

RUBELLITE ENERGY INC.
Condensed Interim Statements of Cash Flows
(unaudited)

For the period ended
September 30, 2021⁽¹⁾

(Cdn\$ thousands)

Cash flows from operating activities

Net income	\$ 8,967
Adjustments to add (deduct) non-cash items:	
Depletion (note 5)	294
Share-based payments (note 9)	10
Gain on acquisition associated with deferred tax	(9,146)
Finance - accretion on decommissioning obligations (note 7)	1
Change in non-cash working capital	(126)
Net cash flows from operating activities	-

Cash flows used in investing activities

Capital expenditures (note 5, 6)	(178)
Cash from acquisitions (note 4)	4,051
Change in non-cash working capital	280
Net cash flows used in investing activities	4,153
Change in cash and cash equivalents	4,153
Cash and cash equivalents, beginning of period	-
Cash and cash equivalents, end of period	\$ 4,153

⁽¹⁾ Reflects activity from incorporation on July 12, 2021 and operating results from September 3, 2021, the effective date of the Arrangement, to September 30, 2021

See accompanying notes to the condensed interim financial statements.

RUBELLITE ENERGY INC.

Notes to the Condensed Interim Financial Statements (unaudited)

Reflects activity from incorporation on July 12, 2021 and operating results from September 3, 2021, the effective date of the Arrangement, to September 30, 2021

(All tabular amounts are in Cdn\$ thousands, except where otherwise noted)

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 condensed interim financial statements of the Company as at September 30, 2021 and reflect activity from incorporation on July 12, 2021 and operating results for the period from September 3, 2021, the effective date of the Plan of Arrangement involving Perpetual Energy Inc. ("Perpetual"), the shareholders of Perpetual and Rubellite, to September 30, 2021.

Material transactions

On September 3, 2021, the Plan of Arrangement involving Perpetual Energy Inc ("Perpetual"), the shareholders of Perpetual, and Rubellite 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 valued at \$2.8 million 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. Third quarter operating results reflect the period from September 3, 2021, the effective date of the completion of the Arrangement, to September 30, 2021. The Clearwater assets were acquired from Perpetual for aggregate consideration of \$65.5 million. The consideration consists 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 the 8.2 million Perpetual common shares 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 undertook to complete 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 million private placement financing (10 million Rubellite common shares) that closed on October 5, 2021 with cash held in trust on September 30, 2021. The cash received is presented as restricted cash with a current non-brokered placement payable on the statement of financial position as at September 30, 2021. On October 5, 2021, the cash was released from trust and the non-brokered placement payable transferred to share capital as the 10 million common shares of Rubellite were issued; and
- (iii) a brokered \$30.0 million subscription receipt financing (15 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 million common shares of Rubellite. The cash received is presented as restricted cash with a current subscription receipt payable on the statement of financial position as at September 30, 2021.

2. BASIS OF PREPARATION

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and in accordance with IAS 34 Interim Financial Reporting.

These condensed interim financial statements of the Company were approved and authorized for issue by the Board of Directors on November 9, 2021.

a) Basis of measurement

These interim financial statements have been prepared on a historical cost basis, except as otherwise allowed for in accordance with IFRS. These interim 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 in the calculation of depletion and also for value in use ("VIU") and fair value less costs of disposal ("FVLCD") calculations of non-financial assets in addition to valuing oil and gas properties in a business combination. Estimates of economically recoverable oil, gas, and NGL reserves and their related cash flows are based upon a number of significant assumptions, such as forecasted production volumes, 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.

ii) Business combinations

In a business combination, management makes estimates of the acquisition-date fair value of assets acquired and liabilities assumed which includes assessing the estimated fair value of petroleum and natural gas properties (included in property, plant and equipment) derived from estimated recoverable quantities of proved and probable oil and gas reserves and the related cash flows being acquired.

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 interim condensed 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, restricted cash, accounts receivable, accounts payable and accrued liabilities, subscription receipts and non-brokered placement payable, and promissory notes 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.

c) Jointly owed 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 future development costs necessary to bring those reserves into production and future decommissioning costs. The 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 or loss and comprehensive income or loss.

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 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 loss and comprehensive loss, 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 rights or performance share rights 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.

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

On September 3, 2021, the effective date of the Plan of Arrangement, Rubellite became a standalone public entity and began trading on the Toronto Stock Exchange on September 9, 2021. The Clearwater assets were acquired from Perpetual for aggregate consideration of \$65.5 million. The consideration consists 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 the 8.2 million Perpetual common shares 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 \$0.4 million of transaction costs incurred by the Company and expensed through earnings. Under the Plan of Arrangement, Rubellite entered into a Management Services Agreement with Perpetual. Under this agreement, Perpetual receives payment for certain technical and administrative services provided to Rubellite on a cost recovery basis.

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

	Total
Net assets acquired:	
Oil and natural gas interests	\$ 56,489
Exploration and evaluation assets	10,067
Cash	4,051
Net working capital	(4,873)
Decommissioning provisions	(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
Rubellite 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 condensed interim financial statements based on information then available. The fair value of property, plant and equipment and exploration and evaluation assets has been estimated with reference to an internally prepared reserves and land evaluation for the acquired properties based on independent third party reports. 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 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 6.0% and an implied inflation rate of 1.73%.

In conjunction with the Plan of Arrangement, the Company undertook the following financing activities (Rubellite Financings):

- 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 million private placement financing (10 million subscription receipts) that closed on October 5, 2021. The cash received is presented as restricted cash with a current non-brokered placement payable on the statement of financial position as at September 30, 2021. On October 5, 2021, the cash was released from trust and the non-brokered placement payable transferred to share capital as the 10 million common shares of Rubellite were issued; and
- iii) a brokered \$30.0 million subscription receipt financing (15 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 million common shares of Rubellite. The cash received is presented as restricted cash with a current subscription receipt payable on the statement of financial position as at September 30, 2021.

All Rubellite Financings were completed at \$2.00 per Rubellite common share equivalent and closed October 5, 2021.

5. PROPERTY, PLANT AND EQUIPMENT

	Oil and Gas Properties
Cost	
Acquisitions (note 4)	\$ 56,489
Change in decommissioning obligations related to PP&E (note 7)	542
Additions	151
September 30, 2021	\$ 57,182
Accumulated depletion and impairment	
Depletion	\$ (294)
September 30, 2021	\$ (294)
Carrying amount	
September 30, 2021	\$ 56,888

As at September 30, 2021, future development costs of \$42.3 million associated with proved and probable oil and natural gas reserves were included in the depletion calculation.

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 September 30, 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

	September 30, 2021
Acquisitions (note 4)	\$ 10,067
Additions	27
Balance, end of period	\$ 10,094

Impairment of E&E assets

E&E assets are tested for impairment when internal or external indicators of impairment or impairment reversal exist as well as upon their eventual reclassification to oil and natural gas properties in PP&E. At September 30, 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:

	September 30, 2021
Obligations incurred	\$ 46
Obligations acquired (note 4)	220
Change in rate on acquisition	496
Accretion	1
Total decommissioning obligations	\$ 763

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 6% 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:

	September 30, 2021
Undiscounted obligations	\$ 815
Average risk-free rate	1.98%
Inflation rate	1.73%
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

	Shares (thousands)	September 30, 2021 Amount (\$thousands)
Balance, July 12, 2021	-	\$ -
Issued pursuant to plan of arrangement (note 4)	2,128	4,141
Balance, September 30, 2021	2,128	\$ 4,141

As of September 30, 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. In addition, there were 16.7 million arrangement warrants exercisable at \$2.00 per share that were exercised on October 5, 2021.

c) Per share information

	For the period ended September 30, 2021 ⁽¹⁾ 2021
<i>(thousands, except per share amounts)</i>	
Net income	\$ 8,967
Weighted average common shares outstanding – basic	726
Weighted average common shares outstanding – diluted	1,739
Net income (loss) per share – basic	\$ 12.34
Net income (loss) per share – diluted	5.16

Per share amounts have been calculated using the weighted average number of common shares outstanding. For the period ended September 30, 2021, 28.1 million common shares issuable upon the exercise and/or settlement of arrangement 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

<i>(thousands)</i>	Share options	Performance share units	Restricted share units	Total
Granted – September 8, 2021	744	185	195	1,124
September 30, 2021	744	185	195	1,124

During the period ended September 30, 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:

	September 30, 2021
Share options	\$ 5
Restricted share units	3
Performance share units	2
Share-based payment expense	\$ 10

a) Share options

Rubellite's share option plan provides a long-term incentive to executive officers and directors 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, 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 (%)	40.0
Risk-free interest rate (%)	1.11
Contractual life (years)	5.0
Weighted average share price at grant date	\$ 2.00
Weighted average fair value at grant date	\$ 2.00

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 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 September 30, 2021, performance multipliers of 1.5 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 September 30, 2021 was \$2.00 per award.

c) Restricted share units

The Company has a restricted share unit plan for certain officers, employees and consultants. Restricted share units granted under the restricted share units plan may be exercised during a period (the "Exercise Period") not exceeding five years from the date upon which the restricted rights were granted. The restricted rights typically vest on a graded basis over two years. At the expiration of the Exercise Period, any restricted rights which have not been exercised shall expire. On the date of exercise, the Company has the option of settling the RSU value 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 fair value of performance share rights granted during the period ended September 30, 2021 was \$2.00 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 September 30, 2021 is \$1.1 million of accrued oil revenue related to 27 days of September 2021 production.

11. RISK MANAGEMENT

Subsequent to September 30, 2021, the Company entered into the following swap commodity contracts:

Commodity	Volumes sold (bbl/d)	Term	Reference/ Index	Contract Traded Bought/sold	Average Price (CAD\$/bbl)
Crude Oil	200	Nov 1 – Dec 31, 2021	WTI (CAD\$/bbl)	Swap - sold	\$100.45
Crude Oil	200	Nov 1 – Dec 31, 2021	WTI (CAD\$/bbl)	Swap - sold	\$101.25
Crude Oil	200	Jan 1 – June 30, 2022	WCS FP (CAD\$/bbl)	Swap - sold	\$75.30
Crude Oil	200	Jan 1 – Dec 31, 2022	WCS FP (CAD\$/bbl)	Swap - sold	\$76.15

12. SUBSEQUENT EVENTS

On October 5, 2021, Rubellite raised \$83.5 million in equity, all priced at \$2.00 per share (note 1 and note 4).

On October 5, 2021, the Company entered into a first lien credit facility with a syndicate of lenders to establish a new \$3 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.