

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

*The following is management's discussion and analysis ("MD&A") of Rubellite Energy Inc.'s ("Rubellite", the "Company" or the "Corporation") activity from incorporation on July 12, 2021 and operating and financial results for the period from September 3, 2021, being the effective date of the completion of the plan of arrangement (the "Arrangement") involving Perpetual Energy Inc. ("Perpetual"), the shareholders of Perpetual and Rubellite, to September 30, 2021. This MD&A should be read in conjunction with the Corporation's unaudited condensed interim financial statements. The Corporation's financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") which require publicly accountable enterprises to prepare their financial statements using International Financial Reporting Standards ("IFRS"). Readers are referred to the advisories for additional information regarding forecasts, assumptions and other forward-looking information contained in the "Forward-Looking Information and Statements" section of this MD&A. The date of this MD&A is November 9, 2021.*

**NATURE OF BUSINESS:** Rubellite is a Canadian energy company headquartered in Calgary, Alberta and engaged in the exploration, development and production of heavy crude oil from the Clearwater formation in Eastern Alberta, utilizing multi-lateral drilling technology. Rubellite has a pure play Clearwater asset base and is pursuing a robust organic growth plan focused on superior corporate returns and free funds flow generation while maintaining a conservative capital structure and prioritizing ESG excellence. Additional information on Rubellite can be accessed at [www.sedar.com](http://www.sedar.com) and found at [www.rubelliteenergy.com](http://www.rubelliteenergy.com).

Rubellite's common shares (the "Rubellite Shares") are publicly traded on the Toronto Stock Exchange ("TSX") under the symbol "RBY".

### **ADVISORIES**

**NON-GAAP MEASURES:** The terms "adjusted funds flow", "free funds flow" and "operating netback" used in this MD&A are not recognized under GAAP. Management believes that in addition to net income (loss) and net cash flows from (used in) operating activities as defined by GAAP, these terms are a useful supplemental measure to evaluate performance. Users are cautioned however that these measures should not be construed as an alternative to net income (loss) or net cash flows from (used in) operating activities determined in accordance with GAAP as an indication of Rubellite's performance and may not be comparable with the calculation of similar measurements by other entities.

**Adjusted funds flow:** Adjusted funds flow is calculated based on cash flows from (used in) operating activities, excluding changes in non-cash working capital and expenditures on decommissioning obligations since the Company believes the timing of collection, payment or incurrence of these items is variable. Expenditures on decommissioning obligations may vary from period to period depending on capital programs and the maturity of Rubellite's operating areas. Expenditures on decommissioning obligations are managed through the capital budgeting process which considers available adjusted funds flow. Management uses adjusted funds flow and adjusted funds flow per boe as key measures to assess the ability of the Company to generate the funds necessary to finance capital expenditures, expenditures on decommissioning obligations and meet its financial obligations.

**Free funds flow:** Free funds flow is defined as adjusted funds flow less total net capital expenditures. Total net capital expenditures is defined as total capital expenditures before acquisitions and non-core dispositions.

**Operating netback:** Operating netback is calculated by deducting royalties, production and operating expenses, and transportation costs from realized revenue. Operating netback is also calculated on a per boe basis using total production sold in the period. Rubellite considers operating netback to be an important performance measure as it demonstrates its profitability relative to current commodity prices. Realized revenue is realized oil revenue which includes realized gains (losses) on financial crude oil and foreign exchange contracts. Realized revenue is used by management to calculate the Company's net realized commodity prices, taking into account the monthly settlements of financial crude oil and natural gas forward sales, collars, basis differentials, and forward foreign exchange sales. These contracts are put in place to protect Rubellite's adjusted funds flow from potential volatility.

**VOLUME CONVERSIONS:** Barrel of oil equivalent ("boe") may be misleading, particularly if used in isolation. In accordance with National Instrument 51-101, a conversion ratio for conventional natural gas of 6 Mcf:1 bbl has been used, which is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In addition, utilizing a conversion on a 6 Mcf:1 bbl basis may be misleading as an indicator of value as the value ratio between conventional natural gas and crude oil, based on the current prices of natural gas and crude oil, differ significantly from the energy equivalency of 6 Mcf:1 bbl. A conversion ratio of 1 bbl of heavy crude oil to 1 bbl of NGL has also been used throughout this MD&A.

### **THIRD QUARTER 2021 COMMENCEMENT OF OPERATIONS**

Rubellite commenced operations when all of Perpetual's Clearwater lands, wells, roads and related 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 \$1.4 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. 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.

Subsequent to September 30, 2021, on October 5, 2021, Rubellite closed \$83.5 million in equity financings, all priced at \$2.00 per share, through a combination of:

- 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.

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, 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.

### THIRD QUARTER FINANCIAL AND OPERATING RESULTS

(\$ thousands, except as noted)

For the period ended  
September 30, 2021<sup>(1)</sup>

<b>Financial</b>	
Petroleum and natural gas revenue	992
Operating netback	700
General and administrative	(192)
Transaction costs	(382)
Share-based payments	(10)
Depletion	(294)
Gain on acquisition associated with deferred tax	9,146
Net income	8,967
Net income per share - basic	\$12.34
Net income per share - diluted	\$5.16
Total assets	132,370
Capital expenditures, acquisition of Clearwater assets	56,489
E&E expenditures, acquisition of Clearwater assets	10,094
Cash flow from (used in) operating activities	-
Change in non-cash working capital	126
Adjusted funds flow	(126)

(\$ thousands, except as noted)

<b>Operating</b>	
Daily average production	
Oil (bbl/d)	561
Total (boe/d)	561
Average prices	
Realized oil price (\$/bbl)	65.52
Benchmark prices	
West Texas Intermediate ("WTI") light oil (USD\$/bbl)	71.54
West Texas Intermediate ("WTI") light oil (CAD\$/bbl)	90.66
Western Canadian Select ("WCS") Heavy Oil average (CAD\$/bbl)	73.52
WCS differential (USD\$/bbl)	(13.52)

<sup>(1)</sup> 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.

## Operating netbacks

The following table highlights Rubellite's operating netbacks for the period from September 3, 2021 to September 30, 2021:

	For the period ended September 30, 2021 <sup>(1)</sup>	
Boe operating netback		561 boe/d
Production (boe/d)	(\$/boe)	(\$ thousands)
Petroleum and natural gas revenue	65.52	\$ 992
Royalties	(5.75)	(87)
Production and operating expenses	(7.78)	(118)
Transportation costs	(5.73)	(87)
Total operating netback	46.26	\$ 700

<sup>(1)</sup> 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's operating netback of \$0.7 million (\$46.26/boe) in the period from September 3, 2021 to September 30, 2021 was based on realized revenue of \$0.9 million (\$65.50/boe) driven by strong oil prices, with WTI benchmark prices of \$71.54 USD/bbl for the period.

During the third quarter of 2021, Rubellite's results were impacted by significant one-time transaction costs relating to the acquisition of the Clearwater Assets and a shorter operating period reflective of 27 days of operations.

## General and administrative

General and administrative expenses consist primarily of salaries and benefits, legal fees, information systems, and audit, reserves and tax related fees. One-time transaction costs of \$0.4 million were recorded relating to the acquisition. Rubellite has entered into a Management Services Agreement ("MSA") with Perpetual whereby Rubellite received technical and administrative services for payment to Perpetual on a cost recovery basis.

## Operations update

As at November 9, 2021, Rubellite currently has seventeen (16.0 net) multi-lateral wells drilled, including the six (6.0 net) original wells drilled by Perpetual at Ukalta and the one (1.0 net) producing 2.5 leg multi-lateral well at Figure Lake. New wells that have been drilled, completed and commenced production since Rubellite's inception in July 2021 include two (1.0 net) wells at Marten Hills which were rig released in mid-July and four (4.0 net) producing wells at Figure Lake. The first four (4.0 net) wells of the planned eight well drilling program at Ukalta have been drilled and completed and three have recently initiated load oil recovery and testing operations. Sales production is expected to ramp up as these new wells fully recover load oil from the drilling process, which is recycled for future drilling operations to the extent possible, and production volumes commence delivery to sales terminals.

At Marten Hills, sales production commenced in late August after fully recovering load oil from drilling operations. Rubellite is pleased to report that the two, eight leg multi-lateral wells continue to have average performance consistent with Rubellite's Marten Hills type curve, with an average IP30 production level of approximately 120 bbl/d of 22° API crude oil for the two wells. An additional 4 (2.0 net) follow up wells are scheduled to be drilled in the first quarter of 2022.

At Rubellite's Figure Lake property, the first two (2.0 net) exploratory wells at the south end of the property each penetrated over 8,000 meters of Clearwater reservoir, were brought onstream August 26, 2021 and began producing formation oil for sales after a three-week period of load oil recovery. Rubellite is excited to announce that the two, multi-lateral wells have averaged performance consistent with Rubellite's Figure Lake type curve, at an average IP30 production level of approximately 120 bbl/d of conventional heavy crude oil. Based on these results to date, Rubellite has procured a second drilling rig to follow up on this exploration success, with spud expected in mid-November, adding four new wells to the existing south Figure Lake pad by mid-January 2022. Additional production volumes from this accelerated program will not contribute materially to fourth quarter 2021 production levels but will serve to accelerate the ramp up of production volumes in the first quarter of 2022.

At the extreme north end of the Figure Lake land base, two additional exploratory multi-lateral wells were drilled over 10 miles north of the south Figure Lake pad site. These two wells have recovered load oil from drilling operations and have recently begun producing formation oil. Initial early production results are below the performance curve of the south Figure Lake wells. Rubellite will continue to monitor production data and re-evaluate performance expectations before any follow up drilling occurs in the north Figure Lake area.

At Ukalta, one (1.0 net) six-leg multi-lateral exploratory well at the southwest edge of the property, targeting a new geologic zone within the Clearwater, was drilled off a single well pad and the first well of the seven (7.0 net) multi-lateral well development drilling program across two pads, primarily targeting development of the main proven Clearwater sand target, was spud prior to the end of the quarter. Since the end of the third quarter, three of four (4.0 net) wells on the first of two development pad sites have been successfully drilled and rig released, and load oil recovery has commenced.

Drilling costs, net of forecast oil-based mud recoveries, are on track and showing continuous improvement as expected with the increased scale of activity and continuity of operations. The Company is also working to reduce time lags for production start-up on multi-well pads by utilizing the drilling rig for completion operations and setting up pads for concurrent drilling and production operations, thereby improving capital efficiencies and accelerating economic returns.

## Outlook

Rubellite's Board of Directors has approved fourth quarter 2021 capital expenditures of \$16 to \$18 million, an increase of \$6 to \$8 million from previous guidance released September 7, 2021. Expenditures in the fourth quarter will be largely directed to the drilling, completion and equipping of the seven (7.0 net) planned development wells at Ukalta and three (3.0 net) of the accelerated four (4.0 net) well program following up the successful exploration results in the south Figure Lake area. A combination of six and eight leg multi-lateral well designs are planned to continue to evaluate opportunities to improve capital efficiencies. The Figure Lake drilling program will be partially funded by the previously announced Figure Lake GORR financing, which provided 100% of the funding for the four wells drilled at Figure Lake during the third quarter and will provide approximately \$0.2 million per well for the next 12 wells in Figure Lake area. Additional capital spending is also expected for preparatory work for first quarter 2022 activities in the Ukalta area.

The procurement of the second drilling rig will also accelerate some of Rubellite's previously planned 2022 activity into the first quarter of 2022. The table below details Rubellite's anticipated capital spending and drilling activities for the fourth quarter of 2021 and first quarter of 2022.

### *Fourth Quarter 2021 and First Quarter 2022 Exploration and Development Forecast Capital Expenditures <sup>(1)</sup>*

	<b>Q4 2021</b> <i>(\$ millions)</i>	<b># of wells</b> <i>(gross/net)</i>	<b>Q1 2022</b> <i>(\$ millions)</i>	<b># of wells</b> <i>(gross/net)</i>
Marten Hills		-/-		4/2.0
Figure Lake <sup>(2)</sup>		3/3.0		1/1.0
Ukalta		7/7.0		6/6.0
<b>Total<sup>(3)</sup></b>	<b>\$16 - \$18</b>	<b>10/10.0</b>	<b>\$10 - \$12</b>	<b>11/9.0</b>

<sup>(1)</sup> Third quarter 2021 capital spending on Rubellite's Clearwater Assets was commensurate with the third quarter component of H2 2021 guidance dated September 7, 2021.

<sup>(2)</sup> The Figure Lake GORR financing is forecast to contribute \$0.6 million in Q4 2021 and \$0.2 million in Q1 2022 to fund Figure Lake drilling activities.

<sup>(3)</sup> Excludes undeveloped land purchases and acquisitions, if any.

Development drilling activity across Rubellite's three operating areas is forecast to drive rapid production growth. With wells drilled at Ukalta beginning to contribute to reported sales volumes in early December, Rubellite forecasts Q4 2021 average daily production of approximately 650 to 700 bbl/d. Production sales volumes will ramp up significantly through year end 2021 and into early 2022 and are expected to reach in excess of 2,000 bbl/d during the first quarter of 2022. The Company expects to update full year 2022 guidance after stabilized production results from the ongoing Ukalta and Figure Lake drilling programs have been established. Rubellite also plans to continue exploration activities to pursue additional prospective land capture and de-risk acreage.

In the context of current strip pricing, Rubellite's organic growth business plan is expected to be fully funded, drive material adjusted funds flow growth over the next two years and generate free funds flow by 2022.

## 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.

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.

## Equity

At September 30, 2021 there were 2.1 million Rubellite shares outstanding, 16.75 million warrants, 25.0 million subscription receipts and 4.0 million Share Purchase Warrants. On October 5, 2021, all components of the Financing closed concurrently, raising \$83.5 million in equity, all priced at \$2.00 per share, and resulting in the issuance of approximately 41.7 million Rubellite Shares.

At November 9, 2021 there were 43.8 million Rubellite shares outstanding. In addition, 5.1 million common shares are potentially issuable on a fully diluted basis, including 4.0 million common shares related to the Share Purchase Warrants issued to Perpetual at \$3.00 per share exercise price and valued at \$2.0 million as a component of the consideration for the acquisition of the Clearwater Assets.

The following table summarizes information about options and performance and restricted awards outstanding as the date of this MD&A:

<i>(millions)</i>	<b>November 9, 2021</b>
Restricted share units	<b>203</b>
Share options	<b>756</b>
Performance share units	<b>185</b>
Total	<b>1,144</b>

## Commodity price risk management

As at November 9, 2021, the Company entered into the following swap commodity contracts:

<b>Commodity</b>	<b>Volumes sold</b>	<b>Reference/</b>	<b>Contract Traded</b>	<b>Average Price</b>
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	<i>(bbl/d)</i>	<b>Term</b>	<b>Index</b>	<b>Bought/sold</b>	<i>(CAD\$/bbl)</i>
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

## OFF BALANCE SHEET ARRANGEMENTS

Rubellite has no off balance sheet arrangements.

## RELATED PARTY TRANSACTIONS

For the period from incorporation on July 12, 2021 and operating results from September 3, 2021, the effective date of the Arrangement, to September 30, 2021, Rubellite had no transactions with related parties, except those pertaining to contributions to Rubellite's long-term incentive plans and payments made under the management services agreement with Perpetual.

## CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a regular basis. The emergence of new information and changed circumstances may result in actual results or changes to estimates that differ materially from current estimates. The Company's use of estimates and judgments in preparing the interim financial statements is discussed in note 2 of the interim financial statements as at September 30, 2021.

## CORPORATE GOVERNANCE

The Corporation is committed to maintaining high standards of corporate governance.

## FORWARD-LOOKING INFORMATION AND STATEMENTS

Certain information and statements contained in this MD&A including management's assessment of future plans and operations, and including the information contained under the heading "Third Quarter Financial and Operating Results – Outlook" may constitute forward-looking information and statements (together, "forward-looking information") within the meaning of applicable securities laws. This forward-looking information relates to future events or to future performance. All statements other than statements of historical fact may be forward-looking information. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe", "outlook", "guidance", "objective", "plans", "intends", "targeting", "could", "potential", "strategy" and any similar expressions are intended to identify forward-looking information and statements.

The forward-looking information includes, without limitation, statements with respect to: the expected ability of the Company to fund its future drilling and development programs and expected growth in shareholder value; the characteristics and plans in respect of the Clearwater Assets; the Company's drilling plans for the remainder of 2021 and 2022 and the benefits to be derived from such drilling including the production growth and ability for the business plan to be fully funded; anticipated adjusted funds flow growth and the timing for free funds flow; the plans to pursue additional prospective land and de-risk existing acreage, including the delineation of exploratory lands that have been secured in the West Dawson and Cadotte areas; the funding contribution related to drilling commitments in connection with the Figure Lake GORR financing; 2022 average production levels; expectations respecting Rubellite's future exploration, development and drilling activities; the expected initial working capital and debt of Rubellite; the anticipated focus of Rubellite's business plan and other similar statements. Forward-looking information is based on current expectations, estimates and projections that involve a number of known and unknown risks, which could cause actual results to vary and in some instances to differ materially from those anticipated by Rubellite and described in the forward-looking information contained in this MD&A. In particular and without limitation of the foregoing, material factors or assumptions on which the forward-looking information in this MD&A is based include: the ability of Rubellite to successfully operate the Clearwater Assets; forecast commodity prices and other pricing assumptions; forecast production volumes based on business and market conditions; foreign exchange rates; near-term pricing and continued volatility of the market; estimates of quantities of crude oil from properties and other sources not currently classified as proved; accounting estimates and judgments; future use and development of technology and associated expected future results; the ability to obtain regulatory approvals; the successful and timely implementation of capital projects; ability to generate sufficient cash flow to meet current and future obligations; estimated abandonment and reclamation costs, including associated levies and regulations applicable thereto; Rubellite's ability to operate under the management of Perpetual pursuant to the management services agreement; the ability of Rubellite to obtain and retain qualified staff and equipment in a timely and cost-efficient manner, as applicable; the retention of key properties; forecast inflation and other assumptions inherent in Rubellite's current guidance and estimates; the continuance of existing tax, royalty, and regulatory regimes; the accuracy of the estimates of reserves volumes; ability to access and implement technology necessary to efficiently and effectively operate assets; and the ongoing and future impact of the coronavirus on commodity prices and the global economy, among others. Undue reliance should not be placed on forward-looking information, which is not a guarantee of performance and is subject to a number of risks or uncertainties, including without limitation those described herein and under "Risk Factors" in Perpetual's Management Information Circular dated August 4, 2021 and in other reports on file with Canadian securities regulatory authorities which may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)). Readers are cautioned that the foregoing list of risk factors is not exhaustive. Forward-looking information is based on the estimates and opinions of Rubellite's management at the time the information is released, and Rubellite disclaims any intent or obligation to update publicly any such forward-looking information, whether as a result of new information, future events or otherwise, other than as expressly required by applicable securities law.

**OIL AND GAS METRICS**

This MD&A contains certain oil and gas metrics which do not have standardized meanings or standard methods of calculation and therefore such measures may not be comparable to similar measures used by other companies and should not be used to make comparisons. Such metrics have been included in this document to provide readers with additional measures to evaluate Rubellite's performance; however, such measures are not reliable indicators of Rubellite's future performance and future performance may not compare to Rubellite's performance in previous periods and therefore such metrics should not be unduly relied upon.

**INITIAL PRODUCTION RATES**

Any references in this MD&A to initial production rates are useful in confirming the presence of hydrocarbons; however, such rates are not determinative of the rates at which such wells will continue production and decline thereafter and are not necessarily indicative of long-term performance or ultimate recovery. While encouraging, readers are cautioned not to place reliance on such rates in calculating the aggregate production for the Company. Such rates are based on field estimates and may be based on limited data available at this time.