



**CONDENSED INTERIM FINANCIAL STATEMENTS  
(UNAUDITED)**

**THREE AND SIX MONTHS ENDED JUNE 30, 2022**

**RUBELLITE ENERGY INC.**  
**Condensed Interim Statements of Financial Position**

As at	June 30, 2022	December 31, 2021
<i>(Cdn\$ thousands, unaudited)</i>		
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 16,125	\$ 15,287
Accounts receivable	7,374	6,845
Prepaid expenses and deposits	119	247
Risk management contracts (note 12)	52	62
	<b>23,670</b>	22,441
Property, plant and equipment (note 3,4)	97,616	72,661
Exploration and evaluation (note 3,5)	29,544	11,614
Deferred tax asset (note 3)	9,146	9,146
Risk management contracts (note 12)	226	–
Total assets	<b>\$ 160,202</b>	\$ 115,862
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 20,964	\$ 17,004
Risk management contracts (note 12)	8,048	1,313
	<b>29,012</b>	18,317
Decommissioning obligations (note 3,6)	2,079	1,976
Risk management contracts (note 12)	500	86
Total liabilities	<b>31,591</b>	20,379
<b>Equity</b>		
Share capital (note 3,7)	122,548	85,474
Share purchase warrants (note 3,7)	2,000	2,000
Contributed surplus (note 8)	907	307
Retained earnings	3,156	7,702
Total equity	<b>128,611</b>	95,483
Total liabilities and equity	<b>\$ 160,202</b>	\$ 115,862

See accompanying notes to the condensed interim financial statements.

*/s/ Holly Benson*

**Holly Benson**

Director

*/s/ Bruce Shultz*

**Bruce Shultz**

Director

**RUBELLITE ENERGY INC.****Condensed Interim Statement of Income (Loss) and Comprehensive Income (Loss)**

	Three months ended June 30, 2022	Six months ended June 30, 2022
<i>(Cdn\$ thousands, except per share amounts, unaudited)</i>		
<b>Revenue</b>		
Oil (note 9)	\$ 15,632	\$ 26,508
Royalties	(1,822)	(2,940)
	<b>13,810</b>	<b>23,568</b>
Realized loss on risk management contracts (note 12)	(6,203)	(9,472)
Unrealized gain (loss) on risk management contracts (note 12)	3,647	(6,933)
	<b>11,254</b>	<b>7,163</b>
<b>Expenses</b>		
Production and operating	1,347	2,457
Transportation	898	1,551
General and administrative (note 3)	755	1,472
Share based payments (note 8)	350	611
Exploration and evaluation (note 5)	27	27
Depletion (note 4)	3,154	5,412
	<b>4,723</b>	<b>(4,367)</b>
Finance income (expense) (note 11)	3	(179)
Income (loss) before income tax	<b>4,726</b>	<b>(4,546)</b>
<b>Net income (loss) and comprehensive income (loss)</b>	<b>4,726</b>	<b>(4,546)</b>
<b>Net income (loss) per share (note 7)</b>		
Basic	\$ 0.09	\$ (0.09)
Diluted	\$ 0.08	\$ (0.09)

See accompanying notes to the condensed interim financial statements.

**RUBELLITE ENERGY INC.**  
**Condensed Interim Statement of Changes in Equity**

	<i>Share Capital</i>		Share	Contributed	Retained	Total
	<i>(thousands)</i>	<i>(\$thousands)</i>	purchase	surplus	earnings	Equity
<i>(Cdn\$ thousands, except share amounts, unaudited)</i>						
Balance at December 31, 2021	43,809	\$ 85,474	\$ 2,000	\$ 307	\$ 7,702	\$ 95,483
Net loss	–	–	–	–	(4,546)	(4,546)
Common shares issued, net of issue costs (note 7)	10,916	37,074	–	(11)	–	37,063
Share-based payments (note 8)	–	–	–	611	–	611
<b>Balance at June 30, 2022</b>	<b>54,725</b>	<b>\$ 122,548</b>	<b>\$ 2,000</b>	<b>\$ 907</b>	<b>\$ 3,156</b>	<b>\$128,611</b>

See accompanying notes to the condensed interim financial statements.

**RUBELLITE ENERGY INC.**  
**Condensed Interim Statement of Cash Flows**

	Three months ended June 30, 2022	Six months ended June 30, 2022
<i>(Cdn\$ thousands, unaudited)</i>		
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ 4,726	\$ (4,546)
Adjustments to add (deduct) non-cash items:		
Depletion (note 4)	3,154	5,412
Share-based payments (note 8)	350	611
Unrealized (gain) loss on risk management contracts	(3,647)	6,933
Finance - accretion on decommissioning obligations (note 6)	14	22
Change in non-cash working capital	1,876	1,233
Net cash flows from operating activities	<b>6,473</b>	<b>9,665</b>
<b>Cash flows from financing activities</b>		
Common shares issued	-	38,744
Share issue costs	(96)	(1,681)
Change in non-cash working capital	(229)	90
Net cash flows from/(used) in financing activities	<b>(325)</b>	<b>37,153</b>
<b>Cash flows used in investing activities</b>		
Capital expenditures (note 4,5)	(12,705)	(48,216)
Change in non-cash working capital	(4,803)	2,236
Net cash flows used in investing activities	<b>(17,508)</b>	<b>(45,980)</b>
Change in cash and cash equivalents	(11,360)	838
Cash and cash equivalents, beginning of period	27,485	15,287
Cash and cash equivalents, end of period	<b>\$ 16,125</b>	<b>\$ 16,125</b>

See accompanying notes to the condensed interim financial statements.

**RUBELLITE ENERGY INC.**  
**Notes to the Condensed Interim Consolidated Financial Statements (unaudited)**  
**For the three and six months ended June 30, 2022**  
**(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 and for the three and six months ended June 30, 2022 are comprised of the accounts of Rubellite. There is no comparative information for the three and six months ended June 30, 2021, as the Company was not incorporated until July 12, 2021, with the operating activity only commencing on September 3, 2021, the effective date of completion of the plan of arrangement between Perpetual Energy Inc. ("Perpetual"), Perpetual shareholders and Rubellite (the "Arrangement") (note 3).

**2. BASIS OF PREPARATION**

These condensed interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and do not include all of the information required for full annual financial statements. These condensed interim financial statements should be read in conjunction with the Company's financial statements as at and for the year ended December 31, 2021 which were prepared in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The accounting policies, basis of measurement, critical accounting judgements and significant estimates used to prepare the annual consolidated financial statements as at and for the year ended December 31, 2021 have been applied in the preparation of these condensed interim financial statements.

These financial statements of the Company were approved and authorized for issue by the Board of Directors on August 10, 2022.

**3. 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 \$1.4 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 was accounted for as a business combination using the acquisition method of accounting, whereby the assets acquired and the liabilities assumed were recorded at the estimated fair value on September 3, 2021. In conjunction with the Arrangement, Rubellite entered into a Management and Operating Services Agreement ("MSA") with Perpetual whereby Perpetual receives payment for certain technical and administrative services provided to Rubellite on a cost recovery basis. For the six month period ended June 30, 2022, the amount of general and administrative costs charged to Rubellite through the MSA was \$0.7 million (period ended December 31, 2021 – \$0.4 million). As at June 30, 2022 the Company recorded an accounts payable of \$2.6 million owing to Perpetual (December 31, 2021 – accounts receivable of \$3.9 million and accounts payable of \$3.8 million).

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

**Assets acquired**

Oil and natural gas interests (note 4)	\$	56,489
Exploration and evaluation assets (note 5)		10,067
Cash		4,051
Net working capital, excluding cash		(4,873)
Decommissioning provisions (note 6)		(220)
<b>Net assets acquired</b>	<b>\$</b>	<b>65,514</b>

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 in 2021. There has been no change to the deferred tax asset during the second quarter of 2022.

## Purchase consideration

Promissory note – Perpetual <sup>(1)</sup>	53,600
Promissory note - 197Co <sup>(2)</sup>	5,773
<b>Consideration to be paid in cash</b>	<b>59,373</b>
Rubellite common shares <sup>(3)</sup>	1,361
Perpetual common shares returned <sup>(4)</sup>	2,780
Share purchase warrants <sup>(5)</sup>	2,000
<b>Total purchase consideration</b>	<b>\$ 65,514</b>

<sup>(1)</sup> Promissory notes owed to Perpetual, secured by certain Clearwater properties, and due on demand, which were settled in cash on October 5, 2021.

<sup>(2)</sup> 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.

<sup>(3)</sup> Rubellite issued to Perpetual 680,485 Rubellite Shares valued at \$1.4 million.

<sup>(4)</sup> Rubellite returned to Perpetual 8.2 million Perpetual common shares valued at \$2.8 million received on the initial capitalization of the Company.

<sup>(5)</sup> 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.

Amounts used to determine the net assets acquired were estimates, which were made by management using information available at the time of the closing of the Arrangement. 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 market value of undeveloped land. The estimated proved and probable oil and natural gas reserves and related cash flows were discounted at a rate of 10%. 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%.

## 4. PROPERTY, PLANT AND EQUIPMENT

	<b>Oil and Natural Gas Interests</b>	
<b>Cost</b>		
Acquisitions (note 3)	\$	56,489
Change in decommissioning obligations related to PP&E (note 6)		1,750
Additions		15,811
December 31, 2021	\$	74,050
Additions		<b>30,286</b>
Change in decommissioning obligations related to PP&E (note 6)		<b>81</b>
<b>June 30, 2022</b>	<b>\$</b>	<b>104,417</b>
<b>Accumulated depletion</b>		
Depletion	\$	1,389
December 31, 2021	\$	1,389
Depletion		<b>5,412</b>
<b>June 30, 2022</b>	<b>\$</b>	<b>6,801</b>
<b>Carrying amount</b>		
December 31, 2021	\$	72,661
<b>June 30, 2022</b>	<b>\$</b>	<b>97,616</b>

As at June 30, 2022, forecasted future development costs of \$32.6 million (December 31, 2021 – \$46.5 million) associated with proved and probable oil and gas reserves were included in the depletion calculation and an estimated \$0.4 million (December 31, 2021 – \$0.4 million) of salvage value for production equipment was excluded.

### a) Cash-generating units and impairment

There were no indicators of impairment for the Company's cash-generating unit ("CGU") as at June 30, 2022 and therefore, an impairment test was not performed.

## 5. EXPLORATION AND EVALUATION

	<b>June 30, 2022</b>	December 31, 2021
Balance, beginning of period	\$ 11,614	\$ –
Acquisitions (note 3)	–	10,067
Additions	<b>17,930</b>	1,547
<b>Balance, end of period</b>	<b>\$ 29,544</b>	\$ 11,614

During the six months ended June 30, 2022, a nominal amount in costs were charged directly to E&E expense in the condensed interim consolidated statements of income and comprehensive income.

During the second quarter, the Company executed the definitive farm-in and option agreement (the "Peavine Transaction") with Cavalier Energy Inc. ("Cavalier") in the Peavine area, in the vicinity of recent industry Clearwater drilling activity and southwest of Rubellite's existing option acreage at West Dawson in northern Alberta. The Peavine Transaction provides exposure to 61.25 gross (34.75 net) sections of land highly prospective for the Clearwater formation, of which Rubellite may earn up to a 60 percent working interest by drilling wells or making certain qualifying capital expenditures.

### 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 June 30, 2022, there were no triggers identified, therefore an impairment test was not performed.

## 6. DECOMMISSIONING OBLIGATIONS

The following table summarizes changes in decommissioning obligations:

	June 30, 2022	December 31, 2021
Balance, beginning of period	\$ 1,976	\$ –
Obligations incurred	930	894
Obligations acquired (note 3)	–	220
Change in rate on acquisition	–	496
Revisions to estimates	(849)	360
Accretion	22	6
<b>Total decommissioning obligations</b>	<b>\$ 2,079</b>	<b>\$ 1,976</b>

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 7.0% 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:

	June 30, 2022	December 31, 2021
Undiscounted obligations	\$ 2,879	\$ 1,913
Average risk-free rate	3.1%	1.7%
Inflation rate	1.8%	1.8%
Expected timing of settling obligations	25 years	25 years

## 7. SHARE CAPITAL

### a) Authorized

Authorized capital consists of an unlimited number of common shares.

### b) Issued and outstanding

	June 30, 2022		December 31, 2021	
	Shares (thousands)	Amount (\$thousands)	Shares (thousands)	Amount (\$thousands)
Balance, beginning of period	43,809	\$ 85,474	–	\$ –
Issued pursuant to plan of arrangement	–	–	2,128	4,141
Issued pursuant to warrant exercise	–	–	16,681	33,470
Issued pursuant to private placement	3,784	13,432	10,000	20,000
Issued pursuant to subscription receipt financing	–	–	15,000	30,000
Issued pursuant to bought deal offering	7,130	25,312	–	–
Issued pursuant to share-based payment plans	2	11	–	–
Share issue costs	–	(1,681)	–	(2,137)
<b>Balance, end of period</b>	<b>54,725</b>	<b>\$ 122,548</b>	<b>43,809</b>	<b>\$ 85,474</b>

As of June 30, 2022 there were 4.0 million Rubellite common share purchase warrants exercisable at \$3.00 per share which expire in July 2026.

During the first quarter of 2022, the Company closed a bought deal financing resulting in the issuance of 7.1 million common shares at \$3.55 per Rubellite common share for total gross proceeds of \$25.3 million. The Company also closed a concurrent private placement resulting in the issuance of 3.8 million common shares at \$3.55 per Rubellite common share for total gross proceeds of \$13.4 million.



As described in note 3, as part of the purchase consideration for the acquisition of the Clearwater Assets, Rubellite issued Perpetual 680,485 Rubellite common shares valued at \$1.4 million. Rubellite returned to Perpetual 8.2 million Perpetual common shares valued at \$2.8 million received on the initial capitalization of the Company, in exchange for 1.4 million Rubellite common shares.

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

<i>(thousands, except per share amounts)</i>	<b>Three months ended June 30, 2022</b>	<b>Six months ended June 30, 2022</b>
Net income (loss)	\$ 4,726	\$ (4,546)
Weighted average common shares outstanding – basic	<b>54,725</b>	<b>49,357</b>
Weighted average common shares outstanding – diluted	<b>55,797</b>	<b>49,357</b>
Net income (loss) per share – basic	<b>\$ 0.09</b>	<b>\$ (0.09)</b>
Net income (loss) per share - diluted	<b>\$ 0.08</b>	<b>\$ (0.09)</b>

Per share amounts have been calculated using the weighted average number of common shares outstanding. For the quarter and period ended June 30, 2022, 0.1 million and 5.4 million, respectively, common shares issuable upon the exercise and/or settlement of warrants, share options, restricted share units and performance share units were excluded from the diluted weighted average number of common shares outstanding as they were anti-dilutive.

## 8. SHARE-BASED PAYMENTS

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

### Compensation awards

<i>(thousands)</i>	<b>Share options</b>	<b>Performance share units</b>	<b>Restricted share units</b>	<b>Total</b>
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
Granted – March 24, 2022	8	138	8	154
Granted – April 21, 2022	–	–	5	5
Granted – June 27, 2022	79	24	18	121
Exercised for common shares	–	–	(2)	(2)
<b>June 30, 2022</b>	<b>844</b>	<b>347</b>	<b>232</b>	<b>1,423</b>

During the period ended June 30, 2022, the Company granted 0.3 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:

	<b>Three month ended June 30, 2022</b>	<b>Six months ended June 30, 2022</b>
Share options	\$ 100	\$ 195
Restricted share units	97	170
Performance share units	153	246
<b>Share-based payment expense</b>	<b>\$ 350</b>	<b>\$ 611</b>

### a) Share options

Rubellite's share option plan provides a long-term incentive to any director of Rubellite, and any executive officer, employee or consultant of Rubellite or Perpetual provided that the MSA is in effect, and they are 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:

	<b>June 30, 2022</b>	December 31, 2021
Dividend yield (%)	–	–
Forfeiture rate (%)	<b>5.0</b>	5.0
Expected volatility (%)	<b>66.0</b>	60.0
Risk-free interest rate (%)	<b>3.13</b>	1.12
Contractual life (years)	<b>5.0</b>	5.0
Weighted average share price at grant date	<b>\$ 3.65</b>	\$ 2.02
Weighted average fair value at grant date	<b>\$ 2.09</b>	\$ 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 June 30, 2022, performance multipliers of 2.0 have been assumed for performance share units granted in 2021 and 1.0 for performance share units granted during the first quarter of 2022. 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 June 30, 2022 was \$4.00 per award.

## **c) Restricted share units**

The Company has a restricted share unit plan for any director of Rubellite, and any officer, employee or consultant of Rubellite or Perpetual, provided that the MSA is in effect. 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 restricted share rights granted during the period ended June 30, 2022 was \$4.01 per award.

## **9. OIL 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. Oil revenue is recognized when a unit of production is delivered to the contract counterparty. The amount of oil revenue recognized is based on the agreed transaction price, whereby any variability in oil revenue relates specifically to the Company's efforts to transfer production, therefore the resulting oil revenue is allocated to the production delivered in the period during which the variability occurs. As a result, none of the variable oil 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. Oil revenues are typically collected on the 25<sup>th</sup> day of the month following production. Included in accounts receivable at June 30, 2022 is \$4.7 million of oil revenue related to June 2022 production (December 31, 2021 - \$1.6 million of oil revenue related to December 2021 production).

## **10. BANK DEBT**

During the period ended June 30, 2022, the Company's first lien credit facility was increased from \$3.0 million 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.

As at June 30, 2022, \$nil was drawn against the credit facility and the Company had cash and cash equivalent assets of \$16.1 million.

## 11. FINANCE EXPENSE

	Three months ended June 30, 2022	Six months ended June 30, 2022
Interest income (expense)	\$ 17	\$ (157)
Accretion (note 6)	(14)	(22)
<b>Finance income (expense)</b>	<b>\$ 3</b>	<b>\$ (179)</b>

## 12. FINANCIAL RISK MANAGEMENT

As at June 30, 2022, the Company had the following crude oil and foreign exchange risk management contracts, with a short-term mark-to-market asset of \$0.1 million, a long-term mark-to-market asset of \$0.2 million, a short-term mark-to-market liability of \$8.0 million, and a long-term mark-to-market liability of \$0.5 million (December 31, 2021 – short-term mark-to-market asset of \$0.1 million, short-term mark-to-market liability of \$1.3 million, long-term mark-to-market liability of \$0.1 million).

### Oil Contracts:

Remaining Period	Type of Contract	Sell/Buy	Quantity (bbl/d)	Pricing Point	Contract Price (\$/bbl)	Mark-to-Market Asset (Liability) (\$'000's)
Jul 2022	Fixed Swap	Buy	200	WCS	CAD 122.00	(71)
Jul 2022	Fixed Swap	Buy	300	WTI	CAD 146.61	(108)
Jul 2022 – Dec 2022	Fixed Swap	Sell	300	WTI	CAD 88.64	(2,153)
Jul 2022 – Dec 2022	Fixed Swap	Sell	300	WTI	CAD 87.45	(2,193)
Jul 2022 – Dec 2022	Fixed Swap	Sell	200	WCS	CAD 76.15	(1,284)
Jul 2022 – Dec 2022	Fixed Swap	Sell	300	WTI	CAD 87.25	(2,171)
Jul 2022 – Dec 2022	Fixed Swap	Sell	200	WTI	CAD 103.30	(862)
Aug 2022	Fixed Swap	Buy	400	WCS	CAD 119.25	(142)
Jan 2023 – Dec 2023	Fixed Swap	Sell	100	WTI	USD 64.50	(999)
Jan 2023 – Dec 2023	Fixed Swap	Sell	100	WTI	USD 89.15	122
Jul 2022	Fixed Differential Swap	Buy	300	WCS	CAD (24.26)	(2)
Jul 2022 – Dec 2022	Fixed Differential Swap	Sell	300	WCS	CAD (18.30)	299
Jul 2022 – Dec 2022	Fixed Differential Swap	Sell	200	WCS	CAD (17.25)	254
Jul 2022 – Dec 2022	Fixed Differential Swap	Sell	300	WCS	CAD (17.55)	368
Jul 2022 – Dec 2022	Fixed Differential Swap	Sell	300	WCS	CAD (18.05)	343
Jan 2023 – Dec 2023	Fixed Differential Swap	Sell	200	WCS	CAD (17.75)	226

As at June 30, 2022, if future WTI and WCS oil prices changed by CAD \$5.00 per bbl with all other variables held constant, net loss for the period would change by \$3.1 million due to changes in the fair value of risk management contracts.

### Foreign Exchange Contracts:

Remaining Period	Type of Contract	Notional (US\$ thousands/month)	Strike rate (US\$/Cdn\$)	Mark-to-Market Asset (Liability) (\$'000's)
Jan 2023 – Dec 2023	Average Rate Forward	500	1.3039	104

As at June 30, 2022, if future exchange rates changed by \$0.05 US\$/Cdn\$ with all other variables held constant, net loss for the period would change by \$0.3 million due to changes in the fair value of risk management contracts.

### 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 risk management contracts are classified as fair value through profit and loss ("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 June 30, 2022	Gross	Netting <sup>(1)</sup>	Carrying Amount	Fair value		
				Level 1	Level 2	Level 3
<b>Financial assets</b>						
Fair value through profit and loss						
Risk management contracts	1,716	(1,438)	278	–	278	–
<b>Financial liabilities</b>						
Fair value through profit and loss						
Risk management contracts	(9,986)	1,438	(8,548)	–	(8,548)	–

<sup>(1)</sup> Risk management contract 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.