TO SHAREHOLDERS

Rubellite Energy Inc. ("Rubellite" or the "Company") is a Canadian energy company 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.

Much progress has been made to advance Rubellite's business plan since the Company's inception and spin out from Perpetual Energy Inc. in September 2021 and momentum is particularly evident with the positive results over the last two quarters. Production has grown nearly 10-fold from 350 bbl/d at inception to current levels of 3,000 bbl/d of heavy oil with operations focused in three core operating areas. Economies of scale are becoming evident as operating costs per boe have decreased close to 50% against the inflationary backdrop the industry has experienced. Our land base has more than tripled and multiple new exploration prospects have been captured and are in the process of being evaluated, minimizing our capital exposure as best possible to prudently manage risk. Sincere thanks to our shareholders who have supported additional capital raises to secure these opportunities.

For 2023, Rubellite's strategic priorities are to:

1. Deliver a robust organic production growth profile to unlock free funds flow;
2. Drive top quartile capital efficiencies;
3. Increase reserve based NAV, de-risk inventory and advance secondary recovery;
4. Grow Clearwater land base and prospect inventory;
5. Maintain pristine balance sheet and manage risk; and
6. Record positive performance metrics to validate ESG excellence.

The Board of Directors and management are grateful for the extraordinary commitment of the Rubellite team and the support of our shareholders, partners, advisors and service providers and the communities where we do our work. In the spirit of our entrepreneurial culture, we look forward to continuing to build this exciting pure play Clearwater explorer and producer and creating value for our shareholders and all other stakeholders.

Susan Riddell Rose

SUE RIDDELL ROSE
President and Chief Executive Officer

March 15, 2023

ADVISORIES

This letter to shareholders, 2022 annual highlights and Annual Results report refer to certain non-GAAP measures and metrics commonly used in the oil and natural gas industry and provides forward-looking information and statements. Further detailed information regarding these measures is provided in this Annual Results report in "Management's Discussion and Analysis – NON-GAAP MEASURES" on pages 17 to 19, "Management's Discussion and Analysis – FORWARD-LOOKING INFORMATION AND STATEMENTS" on page 21.

In addition to the disclosure set out in the Company's Management's Discussion and Analysis for the period ended December 31, 2022, we provide certain supplementary disclosure throughout this Annual Results report in respect of certain specified financial measures (as such term is defined in National Instrument 51-112 – *Non-GAAP and Other Financial Measures*) and in respect of certain oil and gas metrics.

2022 FINANCIAL AND OPERATING HIGHLIGHTS

- Achieved fourth quarter and annual conventional heavy oil sales production of 2,181 bbl/d and 1,670 boe/d respectively. Fourth quarter volumes represented a 262% increase compared to the same period in 2021 and a 24% increase from Q3 2022.
- Increased Q1 2023 production guidance to a range of 2,800 to 2,900 bbl/d versus previous guidance range of 2,200 to 2,600 bbl/d. Current conventional heavy oil sales production is approximately 3,000 bbl/d, based on field estimates for the first week of March.
- Generated adjusted funds flow(1) of $8.1 million ($0.15 per share) in the fourth quarter of 2022 and $23.0 million ($0.44 per share) for the full year of 2022. Fourth quarter adjusted funds flow represented a 454% increase compared to the same period in 2021 and a 26% increase from Q3 2022.
- Net cash flows from operating activities were $15.0 and $23.9 million in the fourth quarter and full year of 2022 respectively.
- Invested $20.5 million and $73.5 million in exploration and development capital expenditures(1) during the fourth quarter and full year of 2022, respectively, which contributed to the drilling of forty five (39.5 net) multi-lateral horizontal wells at Ukalta, Figure Lake and Marten Hills, and included pad construction and facilities installation for the ongoing drilling program. Activity in the fourth quarter related to the drilling of ten (7.9 net) multi-lateral horizontal wells at Figure Lake and Marten Hills as well as one (1.0 net) vertical stratigraphic evaluation well as part of the Northern Exploration program.
- Successfully acquired 23.0 net sections of land prospective for Clearwater heavy oil at a cost of $3.0 million during the fourth quarter, primarily located adjacent to recent Figure Lake drilling, bringing total land acquired in 2022 to 171.5 net sections at a cost of $20.5 million.
- Generated net income of $18.7 million ($0.34/share) and $24.6 million ($0.47/share) in the fourth quarter and full year of 2022 respectively, and was positively impacted by a deferred tax recovery.
- Net debt(1) was $28.2 million at year end, with a net debt to Q4 2022 annualized adjusted funds flow(1) ratio of 0.9 times.
- Rubellite had available liquidity(1) at December 31, 2022 of $30.0 million, comprised of the $40.0 million borrowing limit of Rubellite's first lien credit facility, less current borrowings of $12.0 million and cash and cash equivalents of $2.0 million.

(1) Non-GAAP financial measure or non-GAAP ratio. See "Non-GAAP and Other Financial Measures" in this news release.

ANNUAL FINANCIAL AND OPERATING HIGHLIGHTS

($ thousands, except as noted)	**2022**	2021
Financial		
Oil revenue	**54,491**	4,923
Net income (loss)	**24,605**	7,702
Per share – basic(3)	**0.47**	0.34
Per share – diluted(3)	**0.47**	0.33
Total Assets	**204,030**	115,862
Cash flow from (used in) operating activities	**23,870**	1,115
Adjusted funds flow(1)	**23,036**	1,595
Per share – basic(2)(3)	**0.44**	0.07
Per share – diluted(2)(3)	**0.44**	0.07
Common shares (thousands)		
Weighted average – basic	**52,093**	22,702
Weighted average – diluted	**52,471**	23,228
Operating		
Daily average oil sales production (bbl/d)(4)	**1,670**	593
Rubellite average realized oil price(2)		
Average realized oil price ($/bbl)	**89.38**	69.76
Average realized oil price – after risk management contracts($/bbl)	**67.82**	71.20

(1) Non-GAAP measure. See "Non-GAAP and Other Financial Measures" in these annual results for an explanation of composition.
(2) Non-GAAP ratio. See "Non-GAAP and Other Financial Measures" in these annual results for an explanation of composition.
(3) Per share amounts are calculated using the weighted average number of basic or diluted common shares.
(4) Conventional heavy oil sales production excludes tank inventory volumes.

YEAR-END 2022 RESERVES

Rubellite's total proved plus probable reserves[1] at year-end 2022 are 10.3 MMboe, comprised of 100% heavy crude oil (2021 – 6.0 MMboe). Reserve additions offset production resulting in an increase in total Company proved plus probable reserves year-over-year of 4.3 MMboe and represent an incremental growth of 71%.

The quality of Rubellite's assets and positive momentum to drive operational and execution excellence in its core operating areas are demonstrated by the highlights below:

- Total proved reserves were 6.1 MMboe at year-end 2022, representing 59% of the Company's proved plus probable reserves (2021 – 53%) and a 92% increase over 2021.

- Proved plus probable producing reserves were 3.9 MMboe at December 31, 2022, representing 38% of total proved plus probable reserves (2021 – 1.8 MMboe; 30%).

- The Figure Lake type curve[1] total proved plus probable reserves increased 13% to 130 Mboe per well with future development costs of $1.9 million per well. The Figure Lake type curve IP30 rates remained consistent with the YE 2021 type curve at 116 bbl/d as the positive performance data from new wells exceeding these IP30 rates was very recent at the time of preparation of the McDaniel Reserve Report.

- Based on the three consultant average price (McDaniel, GLJ, Sproule) forecasts (the "Consultant Average Price Forecast") used by McDaniel, the net present value ("NPV") of Rubellite's total proved plus probable reserves (discounted at 10%) before income tax, was $215.2 million (2021 – $123.2 million). The increase related primarily to the material increase in reserve additions at year-end 2022 as compared to the prior year.

- All abandonment, decommissioning and reclamation obligations are included in the reserve report, consistent with year-end 2021. All reserve well decommissioning obligations as well as the additional costs expected to be incurred to abandon and reclaim non-reserve wells, facilities and pipelines are included.

- Based on the Consultant Average Price Forecast, Rubellite's reserve-based net asset value ("NAV")[2] (discounted at 10%) at year-end 2022 is estimated at $218.4 million ($3.99 per share) as compared to $143.4 million ($3.27 per share) at year-end 2021.

(1) Type curve assumptions are based on the Total Proved plus Probable Undeveloped reserves contained in the McDaniel Reserve Report as disclosed in the Company's Annual Information Form which is available under the Company's profile on SEDAR at www.sedar.com. "Reserve Report" means the independent engineering evaluation of the Company's heavy crude oil reserves, prepared by McDaniel with an effective date of December 31, 2022 and a preparation date of March 9, 2023. The Marten Hills primary development type curve was established in the McDaniel Reserve Report with an effective date of December 31, 2021.

(2) Non-GAAP financial measure or non-GAAP ratio. See "Non-GAAP and Other Financial Measures" in this news release.

Reserves Disclosure

Working interest reserves included herein refer to working interest reserves before royalty deductions. Reserves information is based on an independent reserves evaluation report prepared by McDaniel & Associates Consultants Ltd. ("McDaniel") with an effective date of December 31, 2022 (the "McDaniel Report"), and has been prepared in accordance with National Instrument 51-101 ("NI 51-101") using the Consultant Average Price Forecast. Complete NI 51-101 reserves disclosure including after-tax reserve values, reserves by major property and abandonment costs will be included in Rubellite's Annual Information Form ("AIF"), which, when filed, will be available on the Company's website at www.rubelliteenergy.com and SEDAR at www.sedar.com.

Rubellite's reserves at December 31, 2022 are summarized below:

Working Interest Reserves at December 31, 2022[1]

	Light and Medium Crude Oil (*Mbbl*)	Heavy Oil (*Mbbl*)	Conventional Natural Gas (*MMcf*)	Natural Gas Liquids (*Mbbl*)	Oil Equivalent (*Mboe*)
Proved Producing	—	2,944	—	—	2,944
Proved Non-Producing	—	165	—	—	165
Proved Undeveloped	—	2,971	—	—	2,971
Total Proved	—	**6,079**	—	—	**6,079**
Probable Producing	—	941	—	—	941
Probable Non-Producing	—	75	—	—	75
Probable Undeveloped	—	3,181	—	—	3,181
Total Probable	**—**	**4,197**	**—**	**—**	**4,197**
Total Proved plus Probable	**—**	**10,276**	**—**	**—**	**10,276**

(1) May not add due to rounding.

Reserves Reconciliation

Working Interest Reserves(1)

Barrels of Oil Equivalent (Mboe)	Proved	Probable	Proved and Probable
Opening Balance, December 31, 2021	3,174	2,847	6,022
Extensions and Improved Recovery	3,324	1,495	4,819
Discoveries	—	—	—
Technical Revisions	(341)	(505)	(846)
Acquisitions	510	355	865
Dispositions	—	—	—
Production	(610)	—	(610)
Economic Factors	21	5	26
Closing Balance, December 31, 2022	**6,079**	**4,197**	**10,276**

(1) May not add due to rounding.

The Clearwater 2022 drilling program resulted in proved producing drilling extensions of 1,769 Mboe attributed to the addition of 27 (24.2 net) producing wells and 2 (2.0 net) non producing wells as well as 1,556 Mboe associated with drilling extensions for 20 (19.3 net) proved undeveloped locations. Six (6.0 net) proved locations with 510 Mboe of reserves were added on land acquired in 2022. Technical revisions of -251 Mboe are due to some drills underperforming, mainly in the Ukalta area. Category transfers of -90 Mboe, which are grouped as technical revisions, are the aggregate of revisions from 12 (8.5 net) drills booked as proved undeveloped transferring to proved producing.

In the proved plus probable reserve category, drilling extensions of 2,203 Mboe are attributed to the addition of 24 (22.6 net) producing wells and 2 (2.0 net) non producing wells as well as 2,617 Mboe associated with drilling extensions for 28 (24.5 net) proved plus probable undeveloped locations. Seven (7.0 net) proved plus probable locations with 865 Mboe of reserves were added on land acquired in 2022. Technical revisions in the proved plus probable category of -463 Mboe are due to some drills underperforming, mainly in the Ukalta area. Category transfers of -383 Mboe, which are grouped as technical revisions, are the aggregate of revisions from 15 (10.1 net) drills booked as proved plus probable undeveloped transferring to proved plus probable producing.

The table below summarizes the future development capital ("FDC") estimated by McDaniel by play type to bring proved plus probable non-producing and undeveloped reserves to production.

Future Development Capital(1)

($ millions)	2023	2024	2025	2026	2027	Remainder	Total
Figure Lake	37.3	45.8	0.1	0.1	0.1	0.2	83.6
Marten Hills	—	1.7	0	—	—	—	1.7
Ukalta	—	10.9	9.5	—	—	—	20.3
Total	**37.3**	**58.3**	**9.6**	**0.1**	**0.1**	**0.2**	**105.6**

(1) May not add due to rounding.

The McDaniel Report estimates that FDC of $105.6 million will be required over the life of the Company's proved plus probable reserves. The FDC is attributed to 59 (55.5 net) locations booked in the Clearwater play. Proved plus probable reserve forecast FDC increased by $59.1 million from $46.5 million (127%) at December 31, 2021. The increase in FDC reflects an increase in locations booked from 40 (34.4 net) at December 31, 2021 as well as increased capital costs per well.

RESERVE LIFE INDEX

Rubellite’s proved plus probable reserves to production ratio, also referred to as reserve life index (“RLI”), was 9.6 years at year-end 2022, while the proved RLI was 6.2 years, based upon the 2022 production estimates in the McDaniel Report. The following table summarizes Rubellite’s historical calculated RLI.

Reserve Life Index

Year-end	2022	2021	2020	2019	2018
Proved	6.2	4.6	—	—	—
Proved plus Probable	9.6	6.6	—	—	—

NET PRESENT VALUE OF RESERVES SUMMARY

Rubellite's heavy crude oil reserves were evaluated by McDaniel using the Consultant Average Price Forecast effective January 1, 2023 but prior to provision for financial oil hedges, foreign exchange contracts, income taxes, interest, debt service charges and general and administrative expenses. The following table summarizes the NPV of future revenue from reserves at December 31, 2022, assuming various discount rates:

NPV of Reserves, before income tax(1)(2)(3)

		Discounted at				
($ millions except as noted)	**Undiscounted**	**5%**	**10%**	**15%**	**20%**	**Unit Value Discounted at 10%/Year ($/boe)(4)**
Proved Producing	121.4	104.1	91.3	81.7	74.5	34.60
Proved Non-Producing	5.7	4.7	4.0	3.4	3.0	26.80
Proved Undeveloped	71.2	52.2	38.5	28.5	21.1	14.30
Total Proved	**198.3**	**161.0**	**133.7**	**113.7**	**98.5**	**24.50**
Probable Producing	43.8	29.8	22.1	17.5	14.5	27.20
Probable Non-Producing	3.7	2.9	2.3	2.0	1.8	35.10
Probable Undeveloped	118.3	80.0	57.0	42.5	32.6	19.90
Total Probable	**165.8**	**112.6**	**81.5**	**62.0**	**48.9**	**21.70**
Total Proved plus Probable	**364.1**	**273.6**	**215.2**	**175.6**	**147.4**	**23.40**

(1) January 1, 2023 Consultant Average price forecast.
(2) Inclusive of all asset retirement obligations of the Company.
(3) May not add due to rounding.
(4) The unit values are based on net reserve volumes.

McDaniel's NPV10 estimate of Rubellite's total proved plus probable reserves at year-end 2022 was $215.2 million, up 75% from $123.2 million at year-end 2021. At a 10% discount factor, total proved reserves account for 62% (2021 – 58%) of the proved plus probable value. Proved plus probable producing reserves represent 53% (2021 – 40%) of the total proved plus probable value (discounted at 10%) as obligations for non-producing wells, facilities and pipelines and carbon tax reduce the value of the developed producing reserves.

FAIR MARKET VALUE OF UNDEVELOPED LAND

Rubellite held 67,662 net undeveloped acres of land as at December 31, 2022. Undeveloped acres refers to land where there are not any existing wells within the rights associated with those lands and includes. The estimate of the fair market value of the Company's undeveloped acreage was prepared by Seaton-Jordan & Associates Ltd. ("Seaton Jordan") and is based on past Crown land sale activity, adjusted for tenure and other considerations. No undeveloped land value was assigned where proved and probable undeveloped reserves have been booked. The fair market value of Rubellite's undeveloped land as estimated by Seaton Jordan at year-end 2022 is $31.4 million.

NET ASSET VALUE

The following NAV table shows what is normally referred to as a "produce-out" NAV calculation under which the Company's reserves would be produced at forecast future prices and costs. The value is a snapshot in time and is based on various assumptions including commodity prices and foreign exchange rates that vary over time. It should not be assumed that the NAV represents the fair market value of Rubellite's shares. The calculations below do not reflect the value of the Company's prospect inventory to the extent that the prospects are not recognized within the NI 51-101 compliant reserve assessment, except as they are valued through the estimate of the fair market value of undeveloped land.

Pre-tax NAV at December 31, 2022(1)(4)

($ millions, except as noted)	**Undiscounted**	**5%**	**10%**	**15%**
Total Proved plus Probable Reserves(2)	364.1	273.6	215.2	175.6
Fair market value of undeveloped lands	31.4	31.4	31.4	31.4
Net debt(4)	(28.2)	(28.2)	(28.2)	(28.2)
NAV	**367.3**	**276.8**	**218.4**	**178.8**
Common shares outstanding (million)(3)	54.8	54.8	54.8	54.8
NAV per share ($/share)(4)	**6.70**	**5.05**	**3.99**	**3.26**

(1) Financial information is per Rubellite's 2022 audited financial statements.
(2) Reserve values per McDaniel Report as at December 31, 2022, including adjustments for carbon tax. All abandonment and reclamation obligations, including future abandonment and reclamation costs for pipelines and facilities and non-reserve wells, are included in the McDaniel Report.
(3) Shares outstanding as at December 31, 2022.
(4) Non-GAAP financial measure or non-GAAP ratio. See "Non-GAAP and Other Financial Measures" in this news release.

The above evaluation includes FDC expectations required to bring undeveloped reserves on production, as recognized by McDaniel, that meet the criteria for booking under NI 51-101. The fair market value of undeveloped land does not reflect the value of the Company's extensive prospect inventory which is anticipated to be converted into reserves and production over time through future capital investment.

OUTLOOK AND GUIDANCE

Rubellite is on track to spend a total of $17 - $20 million in Q1 2023 capital expenditure (see "Non-GAAP and Other Financial Measures") to drill, complete, equip and tie-in six (6.0 net) multi-lateral development / step-out wells at Figure Lake and the three (2.5 net) multi-lateral exploratory program which has already been completed. Forecast drilling activities are expected to be funded from adjusted funds flow and the Company's Credit Facility.

Factoring in the positive initial performance from the Q4 2022 and Q1 2023 drilling program to date, production sales volumes for the first quarter of 2023 are expected to average 2,800 - 2,900 bbl/d, exceeding previous November 10, 2022 guidance of 2,200 to 2,600 bbl/d. Based on field estimates for the last two weeks of February, heavy oil production to sales averaged 3,000 bbl/d.

Rubellite will closely monitor the production performance of the highly successful recent drilling program at Figure Lake and the Company anticipates providing full year guidance with the issuance of its Q1 2023 results in May.

Subsequent to year end, Rubellite acquired 20 net sections of prospective land through direct purchase related to the previously announced Land Acquisition and Drilling Commitment Agreement with the Buffalo Lake Métis Settlement. Rubellite plans to drill a minimum of four multi-lateral wells on this acreage to fulfill its operational commitments prior to December 31, 2023. The Company has now grown its land position for exposure to the Clearwater play to 343.9 net sections, up 231% from the 104 net sections held by Rubellite at its inception in July of 2021. A significant portion of the newly acquired lands are complementary to existing operating areas in Ukalta and Figure Lake on the southern Clearwater trend, while the remainder of the additional new acreage supplements Rubellite's exploratory acreage in the northern Clearwater play fairway and captures land on other Clearwater exploration prospects.

Capital spending, drilling activity and operational guidance for the first quarter of 2023 is as outlined in the table below:

	Previous Q1 2023 Guidance	Updated Q1 2023 Guidance
Production (bbl/d)	2,200 - 2,600	2,800 - 2,900
Development ($ millions)(1)	$8 - $10	$10 - $12
Multi-lateral development wells (net)	7.0	6.0
Exploration spending ($ millions)(1)	$7 - $10	$7 - $8
Exploration wells (net)	—	2.5
Heavy oil wellhead differential ($/bbl)(2)	$7.00 - $8.00	$7.00 - $8.00
Royalties ($/bbl)	9% - 10%	10% - 11%
Production & operating costs ($/bbl)	$6.00 - $6.50	$6.00 - $6.50
Transportation ($/bbl)	$6.50 - $7.00	$7.50 - $8.00
General & administrative ($/bbl)	$5.50 - $6.00	$5.00 - $5.50

(1) Exploration and development capital expenditure guidance excludes undeveloped land purchases and additional acquisitions. See "Non-GAAP and Other Financial Measures" in this news release.

(2) Supplementary financial measure. See "Non-GAAP and Other Financial Measures" in this release.

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") operating and financial results for the year ended December 31, 2022, as well as information and estimates concerning the Corporation's future outlook based on currently available information. This discussion should be read in conjunction with the Corporation's financial statements and accompanying notes for the years ended December 31, 2022 and 2021. 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").

The date of this MD&A is March 9, 2023. Rubellite commenced operations with the acquisition of Perpetual Energy Inc.'s ("Perpetual) Clearwater lands, wells, roads and related facilities in northeast Alberta (the "Clearwater Assets") on July 15, 2021. Operating results for 2021 reflect the period from September 3, 2021, the effective date of the completion of the plan of arrangement between Perpetual, shareholders of Perpetual and Rubellite (the "Arrangement"), to December 31, 2021.

This MD&A contains certain specified financial measures that are not recognized by GAAP and used by management to evaluate the performance of the Corporation and its business. Since certain specified financial measures may not have a standardized meaning, securities regulations require that specified financial measures are clearly defined, qualified and, where required, reconciled with their nearest GAAP measure. See "Non-GAAP and Other Financial Measures" for further information on the definition, calculation and reconciliation of these measures. This MD&A also contains forward-looking information. See "Forward-Looking Information".

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

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

FOURTH QUARTER AND ANNUAL 2022 OPERATIONAL AND FINANCIAL HIGHLIGHTS

- Exploration and development capital expenditures(1) for the fourth quarter of 2022 totaled $23.5 million, related to the drilling of ten (7.9 net) multi-lateral horizontal wells at Figure lake and Marten Hills, one (1.0 net) vertical stratigraphic evaluation well as part of the Northern Exploration program, pad construction and facilities installation for the ongoing drilling program. Fourth quarter land spending of $3.0 million to purchase 23.0 net sections of land in the Clearwater area adjacent to recent Figure Lake drilling, bringing the total for 2022 to 171.5 net sections of additional land prospective for Clearwater heavy oil. Fourth quarter transactions include a Land Acquisition and Drilling Commitment Agreement with the Buffalo Lake Métis Settlement whereby Rubellite plans to drill a minimum of four multi-lateral wells prior to December 31, 2023.

- Exploration and development capital expenditures(1) for 2022 totaled $94.2 million, related to pad construction and facilities installation and the drilling of forty one (35.5 net) multi-lateral horizontal wells, two (2.0 net) vertical exploration wells, and two (2.0 net) service wells at Ukalta, Figure lake, Marten Hills and Utikuma. 2022 land spending of $20.7 million was spent to purchase land in the greater Clearwater fairway.

- As of December 31, 2022, there were fifty eight (51.5 net) wells contributing to sales production, with one (1.0 net) well rig released and recovering oil based mud drilling fluid ("OBM"), as compared to forty six (41.6 net) wells on production at the end of the third quarter of 2022. Recoveries of OBM are not recorded as sales production as the OBM is recycled for future drilling operations to the extent possible, which is currently running at approximately 65%, or sold and credited back to drilling capital.

- Daily average conventional heavy oil sales production increased 24% from third quarter 2022 levels to average 2,181 bbl/d in the fourth quarter of 2022 (Q3 2022 – 1,760 bbl/d), which was at the upper end of the Company's Q4 2022 guidance range of 1,950 to 2,200 bbl/d. Sales production for full year 2022 averaged 1,670 boe/d, an increase from 593 boe/d in 2021 and at the upper end of 2022 guidance range of 1,600 to 1,675 bbl/d. Production progressively ramped up through 2022 as new wells fully recovered their OBM, filled processing tank inventories, and then commenced delivery of heavy oil to sales terminals. The Company produced close to an additional 70 bbl/d which was not recorded as sales during the fourth quarter, building inventory to fill new tank volumes for oil processing and water separation at pad sites.

- Operating netbacks(1) in the fourth quarter of 2022 were $10.0 million, or $49.96/boe (Q3 2022 – $10.3 million or $63.90/boe), reflecting a decline in Western Canadian Select ("WCS") benchmark prices, partially offset by increased production. After realized losses on risk management contracts of $0.7 million, or $3.37/boe (Q3 2022 – losses of $3.0 million or $18.49/boe), operating netbacks after risk management contracts were $9.3 million or $46.59/boe (Q3 2022 – $7.4 million or $45.41/boe). Operating netbacks after risk management contracts in 2022 were $26.8 million or $43.93/boe (2021 – $3.3 million or $47.07/boe), reflecting an increase in prices, partially offset by a $13.1 million or $21.56/boe realized loss on risk management contracts.

- Adjusted funds flow(1) in the fourth quarter of 2022 was $8.1 million (Q3 2022 – $6.5 million) up 25% quarter-over-quarter, driven by the growth in sales production, partially offset by higher transportation and production and operating costs. Adjusted funds flow per boe was $40.60/boe, up 2% from $39.89/boe in the third quarter of 2022. Adjusted funds flow recorded for 2022 was $23.0 million ($0.44 per share), up from $1.6 million ($0.07/share) in 2021.

- Net cash flow from operating activities in the fourth quarter of 2022 were $15.0 million (Q3 2022 – $0.7 million cash flow used in operating activities). Net cash flows from operating activities for 2022 were $23.9 million (2021 – $1.1 million).

- Net income for the fourth quarter of 2022 was $18.7 million (Q3 2022 – $10.4 million). Higher net income was impacted by a deferred tax recovery, partially offset by the reduction in unrealized gains on risk management contracts as compared to the third quarter of 2022. Net income in 2022 was $24.6 million ($0.47/share) as compared to $7.7 million ($0.34/share) in 2021.

- Cash costs(1) were $4.1 million or $20.27/boe in the fourth quarter of 2022, up 46% (17% on a per boe basis) from the third quarter of 2022 (Q3 2022 – $2.8 million or $17.31/boe) due to the impact of higher production. On a per boe basis, the increase was driven by higher transportation and production and operating costs. Cash costs were $12.5 million ($20.51/boe) in 2022, as compared to $1.9 million or $26.46/boe in 2021.

- As at December 31, 2022, net debt[1] was $28.2 million, an increase from a net asset[1] of $5.4 million as at December 31, 2021, as capital expenditures exceed adjusted funds flow and $38.7 million of proceeds from equity financings. As compared to the third quarter of 2022, net debt increased $15.1 million.

- Rubellite had available liquidity (see "Liquidity, Capitalization and Financial Resources - Capital Management") at December 31, 2022 of $30.0 million, comprised of the $40.0 million borrowing limit of Rubellite's first lien credit facility ("Credit Facility Borrowing Limit"), less current borrowings of $12.0 million and cash and cash equivalents of $2.0 million.

(1) Non-GAAP measure. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.

OPERATIONS UPDATE

Three (0.9 net) new wells drilled in the fourth quarter at Marten Hills fully recovered OBM from the drilling process and completed their respective IP30 production periods, recording average IP30 production rates of 231 bbl/d, close to double the primary development type curve[1]. With primary development on the Company's Marten Hills acreage now complete, the Company will continue to monitor the performance of several offsetting waterflood pilots and assess the potential for secondary recovery on its acreage at Marten Hills later in 2023.

At Figure Lake, a total of eight (8.0 net) multi-lateral horizontal wells were spud and seven (7.0 net) were rig released during the fourth quarter. Development drilling operations were focused on two existing pads, adding three (3.0 net) horizontal multi-lateral wells to the pad at 1-13-63-18W4 (the "1-13 Pad") and three (3.0 net) horizontal multi-lateral wells on the pad to the north at 9-23-63-18W4 (the "9-23 Pad"). Two wells were also spud on a new pad at 3-26-63-18W4 (the "3-26 Pad"), with one well rig-released in mid-December and the second rig released January 6, 2023. All three new wells drilled at the 1-13 Pad recovered their OBM load fluid during the fourth quarter of 2022 and progressed through their respective IP30 production periods, recording IP30 rates ranging from 128 to 212 bbl/d to average 159 bbl/d as compared to the Figure Lake type curve[1] IP30 of 116 bbl/d. The three wells on the 9-23 Pad drilled during the fourth quarter have fully recovered their respective OBM and recorded IP30 production rates of 168 bbl/d, 195 bbl/d and 204 bbl/d respectively. Two additional wells on the 9-23 Pad rig released in January are amongst the strongest Figure Lake wells drilled to date, averaging 231 bbl/d and 259 bbl/d respectively during their recently completed IP30 periods. Positive results continued from the offsetting 3-26 Pad, with the well rig released in mid-December recording an IP30 period average rate of 172 bbl/d; the second well rig released in early January, which was approximately 20% shorter than the Figure Lake type curve[1], averaging 117 bbl/d through its IP30 period, and the third well rig released on the 3-26 Pad in early February tracking above the Figure Lake type curve[1]. Performance from the recent Figure Lake development wells continues to be positive and will be monitored to inform future corporate guidance as field operations are optimized.

The drilling rig was moved in mid-February to a new Figure Lake pad at 9-31-62-18W4 (the "9-31 Pad") and a step-out multi-lateral horizontal well was rig released in early March and has commenced OBM recovery operations. Finally at Figure Lake, the first of two wells have been spud on a new pad (the "10-19 Pad") on the Buffalo Lake Metis Settlement acreage acquired in the first quarter of 2023. Operationally, Rubellite intends to complete the drilling of the two wells on the 10-19 Pad in early April. The development / infill drilling program at Figure Lake will resume after break-up conditions allow for access in early May.

Rubellite spud the first of three (2.5 net) planned multi-lateral wells in its Northern Exploration Program in early January. The one (0.5 net before payout) horizontal multi-lateral well at Dawson (5-16-81-16W5) had approximately 7,500 meters of horizontal length as compared to a Figure Lake type curve[1] well with approximately 9,000 meters of horizontal length. The exploratory well at Dawson fully recovered its OBM load fluid and recorded an IP30 rate of 81 bbl/d. This exploration well's performance will be closely monitored through the remainder of the winter operating season with follow-up activity in winter 2023/24 under evaluation. In late January, the drilling rig moved to Peavine and drilled two (2.0 net) exploratory multi-lateral wells. The Peavine wells have completed their load oil recovery operations and began producing heavy oil volumes to sales progressively through February and early March. Performance of the Peavine wells will be closely monitored through the remainder of the winter operating season; however, initial results suggest future drilling in the Peavine area will not likely compete for capital relative to Rubellite's other attractive development projects at the current time.

(1) Type curve assumptions are based on the Total Proved plus Probable Undeveloped reserves contained in the McDaniel Reserve Report as disclosed in the Company's Annual Information Form which is available under the Company's profile on SEDAR at www.sedar.com. "McDaniel" means McDaniel & Associates Consultants Ltd. independent qualified reserves evaluators. "McDaniel Reserve Report" means the independent engineering evaluation of the crude oil, natural gas and NGL reserves, prepared by McDaniel with an effective date of December 31, 2022 and a preparation date of March 9, 2023. The Marten Hills primary development type curve was established in the McDaniel Reserve Report with an effective date of December 31, 2021.

OUTLOOK AND GUIDANCE

Rubellite is on track to spend a total of $17 - $20 million in Q1 2023 capital expenditure (see "Non-GAAP and Other Financial Measures") to drill, complete, equip and tie-in six (6.0 net) multi-lateral development / step-out wells at Figure Lake and the three (2.5 net) multi-lateral exploratory program which has already been completed. Forecast drilling activities are expected to be funded from adjusted funds flow and the Company's Credit Facility.

Factoring in the positive initial performance from the Q4 2022 and Q1 2023 drilling program to date, production sales volumes for the first quarter of 2023 are expected to average 2,800 - 2,900 bbl/d, exceeding previous November 10, 2022 guidance of 2,200 to 2,600 bbl/d. Based on field estimates for the last two weeks of February, heavy oil production to sales averaged 3,000 bbl/d.

Rubellite will closely monitor the production performance of the highly successful recent drilling program at Figure Lake and the Company anticipates providing full year guidance with the issuance of its Q1 2023 results in May.

Subsequent to year end, Rubellite acquired 20 net sections of prospective land through direct purchase related to the previously announced Land Acquisition and Drilling Commitment Agreement with the Buffalo Lake Métis Settlement. Rubellite plans to drill a minimum of four multi-lateral wells on this acreage to fulfill its operational commitments prior to December 31, 2023. The Company has now grown its land position for exposure to the Clearwater play to 343.9 net sections, up 231% from the 104 net sections held by Rubellite at its inception in July of 2021. A significant portion of the newly acquired lands are complementary to existing operating areas in Ukalta and Figure Lake on the southern Clearwater trend, while the remainder of the additional new acreage supplements Rubellite's exploratory acreage in the northern Clearwater play fairway and captures land on other Clearwater exploration prospects.

Capital spending, drilling activity and operational guidance for the first quarter of 2023 is as outlined in the table below:

	Previous Q1 2023 Guidance	Updated Q1 2023 Guidance
Production (bbl/d)	2,200 - 2,600	2,800 - 2,900
Development spending ($ millions)(1)	$8 - $10	$10 - $12
Multi-lateral development wells (net)(1)	7.0	6.0
Exploration spending ($ millions)(1)	$7 - $10	$7 - $8
Exploration wells (net)	—	2.5
Heavy oil wellhead differential ($/bbl)(2)	$7.00 - $8.00	$7.00 - $8.00
Royalties (% of revenue)(2)	9% - 10%	10% - 11%
Production & operating costs ($/boe)(2)	$6.00 - $6.50	$6.00 - $6.50
Transportation ($/boe)(2)	$6.50 - $7.00	$7.50 - $8.00
General & administrative ($/boe)(2)	$5.50 - $6.00	$5.00 - $5.50

(1) Exploration and development spending guidance excludes undeveloped land purchases and additional acquisitions. Well counts relate to wells rig released during the period. Non-GAAP ratio. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.
(2) Non-GAAP ratio. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.

FOURTH QUARTER 2022 FINANCIAL AND OPERATING RESULTS

Cash Flow used in Investing Activities, Capital Expenditures, Acquisitions and Dispositions

Cash flow used in investing activities was $31.2 million and $86.3 million for the three and twelve months ended December 31, 2022 as compared to $71.1 million and $67.2 million in the comparative periods of 2021. In addition to cash flow used in investing activities, Rubellite uses capital expenditures to measure its capital investments compared to the Company's annual budgeted expenditures related to both property, plant and equipment assets ("PP&E") and exploration and evaluation assets ("E&E") assets. The capital budget excludes acquisition and disposition activities. "Capital expenditures" is not a standardized measure and, therefore, may not be comparable with the calculation of similar measures by other entities.

For reconciliation of cash flow used in investing activities to capital expenditures, refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A.

The following tables summarizes capital expenditures for both PP&E and E&E assets, excluding non cash items:

	Three months ended December 31,					
	2022			2021		
($ thousands)	**E&E**	**PP&E**	**Total**	E&E	PP&E	Total
Drilling and completions	**732**	**13,512**	**14,244**	—	12,951	12,951
Facilities	**—**	**4,017**	**4,017**	—	1,603	1,603
Lease construction	**302**	**1,909**	**2,211**	—	800	800
Land and other	**3,043**	**—**	**3,043**	1,520	306	1,826
Capital expenditures(1)	**4,077**	**19,438**	**23,515**	1,520	15,660	17,180

(1) Non-GAAP measure. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.

	Twelve Months Ended December 31,					
	2022			2021(2)		
($ thousands)	**E&E**	**PP&E**	**Total**	E&E	PP&E	Total
Drilling and completions	**5,455**	**52,309**	**57,764**	—	12,909	12,909
Facilities	**—**	**9,687**	**9,687**	—	1,669	1,669
Lease construction	**612**	**5,442**	**6,054**	—	927	927
Land and other	**20,514**	**188**	**20,702**	1,547	306	1,853
Capital expenditures(1)	**26,581**	**67,626**	**94,207**	1,547	15,811	17,358

(1) Non-GAAP measure. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.
(2) Operating results for 2021 reflect the period from September 3, 2021, the effective date of the completion of the Arrangement from September 3, 2021 to December 31, 2021.

Wells drilled by area

	Three months ended December 31,		Twelve months ended December 31,	
(gross/net)	**2022**	2021	**2022**	2021[1]
Development:				
Ukalta	**- / -**	6 / 6.0	**16 / 16.0**	7 / 7.0
Figure Lake[2]	**7 / 7.0**	2 / 2.0	**16 / 16.0**	6 / 6.0
Marten Hills	**3 / 0.9**	- / -	**9 / 3.5**	2 / 1.0
Service Wells	**- / -**	- / -	**2 / 2.0**	- / -
Exploration:				
Ukalta	**- / -**	- / -	**1 / 1.0**	- / -
Utikuma[3]	**1 / 1.0**	- / -	**1 / 1.0**	- / -
Total	**11 / 8.9**	8 / 8.0	**45 / 39.5**	15 / 14.0

(1) Includes wells drilled in 2021 by Perpetual prior to the effective date of the completion of the Arrangement on September 3, 2021.
(2) One (1.0 net) Figure Lake well and one (1.0 net) Alpen well were originally classified as E&E drills and subsequently transferred into PP&E at Figure Lake during the fourth quarter of 2022.
(3) One (1.0 net) vertical stratigraphic evaluation well was drilled in Q4 2022.

Additions to PP&E assets

Rubellite's additions to PP&E in the fourth quarter of 2022 was $19.4 million. Drilling activity resulting in additions to PP&E for the fourth quarter of seven (7.0 net) wells at Figure Lake and three (0.9 net) wells at Marten Hills. Capital to drill two (2.0 net) additional wells at Figure Lake that were rig released in the beginning of 2023 were largely spent during the fourth quarter of 2022. The wells drilled during the fourth quarter at Figure Lake and Marten Hills were classified as PP&E assets as at December 31, 2022 with nine (6.9 net) of the wells contributing to production and the tenth well recovering OBM.

Additions to PP&E in 2022 was $67.6 million. Drilling activity resulting in additions to PP&E in 2022 represented sixteen (16.0 net) wells at Ukalta, sixteen (16.0 net) wells at Figure Lake and nine (3.5 net) wells at Marten Hills. One additional well drilled at Ukalta and one additional well drilled at Figure Lake during 2022 were vertical water disposal service wells.

Additions to E&E assets

Rubellite's 2022 additions related to E&E was $26.6 million which included exploratory drilling activity and land purchases.

During the fourth quarter of 2022, Rubellite drilled a vertical evaluation well at Utikuma as part of its Northern Exploration Program and this well remains in E&E at December 31, 2022. During the third quarter of 2022, Rubellite finished drilling an exploratory well at Alpen, approximately 6 miles west of Figure Lake, and a vertical evaluation well at Ukalta that was designed to test and define the an expansion of the pool to the northwest. As at December 31, 2022 the Ukalta well remains in E&E and the Alpen well was transferred to PP&E.

Land spending and acquisitions in the fourth quarter of 2022 was $3.0 million to purchase an additional 23.0 net sections of strategic land, including 10.75 net sections adjacent to recent Figure Lake drilling in the Clearwater area. Land spending in 2022 was $20.5 million, bringing the total prospective Clearwater acreage acquired during the year to 171.5 net sections.

Clearwater Assets Acquisition

On September 3, 2021, the Clearwater Assets were acquired from Perpetual for aggregate consideration of $65.5 million. The consideration consisted of promissory notes totaling $59.4 million, which were paid in cash on October 5, 2021, the issuance of 680,485 Rubellite common shares valued at $1.4 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.

Production

	Three months ended December 31,		Twelve months ended December 31,	
	2022	2021	**2022**	2021[1]
Production				
Average daily heavy crude oil (bbl/d) – production[2]	**2,250**	633	**1,716**	620
Average daily heavy crude oil (bbl/d) – sales[2]	**2,181**	603	**1,670**	593

(1) The 2021 comparable period reflects activity from incorporation on July 12, 2021 and operating results from September 3, 2021, the effective date of the completion of the Arrangement, to December 31, 2021.
(2) The Company's heavy oil sales volumes and production volumes differ due to changes in inventory.

Fourth quarter production averaged 2,250 bbl/d, up 18% relative to the third quarter of 2022 (Q3 2022 - 1,906 bbl/d). Sales production averaged 2,181 bbl/d, up 421 bbl/d or 24% from 1,760 bbl/d in the third quarter of 2022 as new wells commenced production through the quarter. At the end of the fourth quarter, an additional twelve (9.9 net) wells were contributing to sales production while three (3.0 net) additional wells drilled at Figure Lake during the fourth quarter recovered their load fluid and began producing heavy oil to sales early in 2023.

Sales production for the three and twelve months ended December 31, 2022 increased 1,578 bbl/d (262%) and 1,077 bbl/d (182%) from the comparative periods in 2021. Production and sales volumes have progressively ramped up throughout 2022 as new wells fully recovered load fluid and commenced delivery to sales terminals.

Oil Revenue

($ thousands, except as noted)	Three months ended December 31, 2022	2021	Twelve months ended December 31, 2022	2021[1]
Oil revenue				
Oil revenue	**14,329**	3,931	**54,491**	4,923
Reference prices				
West Texas Intermediate ("WTI") (US$/bbl)	**82.64**	77.13	**94.22**	75.73
Foreign Exchange rate (US$/CAD$)	**1.36**	1.26	**1.30**	1.26
West Texas Intermediate ("WTI") (CAD$/bbl)	**112.39**	97.18	**122.49**	95.42
Western Canadian Select ("WCS") differential (US$/bbl)	**(25.70)**	(14.63)	**(18.23)**	(14.36)
WCS (CAD$/bbl)	**77.33**	78.65	**98.49**	77.37
Rubellite average realized prices[2]				
Average realized oil price ($/bbl)	**71.42**	70.94	**89.38**	69.76

(1) The 2021 comparable period reflects operating results from September 3, 2021, the effective date of the completion of the Arrangement, to December 31, 2021.

(2) Non-GAAP ratio. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.

Rubellite's oil revenue for the three months ended December 31, 2022 of $14.3 million increased by 4% or $0.6 million from the third quarter of 2022 (Q3 2022 - $13.7 million), attributable to the 24% increase in sales production, partially offset by the 15% decrease in average realized oil prices (Q3 2022 - average realized price $84.31/bbl). In the fourth quarter of 2022, commodity prices decreased when compared to the third quarter of 2022 driven by lower WTI reference prices and widening WCS differentials, partially offset by the weakening Canadian dollar. During the fourth quarter the decrease in the WCS average price was consistent with the decrease in WTI oil prices which averaged US$82.64/bbl (Q3 2022 – US$91.64/bbl) and an increase in the WCS differential to US$25.70/bbl (Q3 2022 - US$19.87/bbl).

Rubellite's oil revenue for the three and twelve months ended December 31, 2022 increased by $10.4 million (265%) and $49.6 million (1,007%) from the comparative periods in 2021, attributable to the increase in production and increased realized oil prices. During the fourth quarter the WCS average price decreased modestly relative to the comparative 2021 period as the increase in WTI oil price which averaged US$82.64/bbl (Q4 2021 – US$77.13/bbl), was offset by an increase in the WCS differential to US$25.70/bbl (Q4 2021 - US$14.63/bbl). During 2022 the WCS average price increase was consistent with the increase in WTI oil prices which averaged US$94.22/bbl (2021 – US$75.73/bbl). The increase in the WCS differential to US$18.23/bbl (2021 - US$14.36/bbl) was more than offset by changes in foreign exchange rates.

Risk Management Contracts

The Company's realized price deviates from benchmark prices due to the Company's risk management strategies. The Company uses "average realized oil prices after risk management contracts" which is not a standardized measure, and therefore may not be comparable with the calculation of similar measures by other entities. The measure is used by management to calculate the Company's net realized oil price, taking into account the monthly settlements of financial and physical crude oil forward sales, differentials and foreign exchange contracts. These contracts are put in place to protect Rubellite's cash flows from potential volatility and lock in economics on drilling programs.

The following table calculates the average realized oil prices after risk management contracts, which is not a standardized measure:

($ thousands, except as noted)	Three months ended December 31, 2022	2021	Twelve months ended December 31, 2022	2021[1]
Unrealized gain (loss) on risk management contracts	**1,017**	**(1,337)**	**2,025**	(1,337)
Realized gain (loss) on risk management contracts	**(676)**	**101**	**(13,142)**	101
Realized gain (loss) on risk management contracts *($/bbl)*	**(3.37)**	**1.83**	**(21.56)**	1.44
Average realized oil price after risk management contracts[2]	**68.05**	**72.77**	**67.82**	71.20

(1) The 2021 comparable period reflects operating results from September 3, 2021 the effective date of the completion of the Arrangement, to December 31, 2021. There were no risk management contracts entered into during the comparable period that impacted the fourth quarter of 2021.

(2) Non-GAAP ratio. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.

Realized losses on risk management contracts totaled $0.7 million or $3.37/bbl for the fourth quarter of 2022, compared to losses of $3.0 million or $18.49/bbl for the third quarter of 2022 and gains of $0.1 million or $1.83/bbl for the fourth quarter of 2021. For 2022, realized losses on risk management contracts were $13.1 million or $21.56/bbl as compared to gains of $0.1 million or $1.44/bbl in 2021. Hedging gains or losses are attributable to reference price fluctuations relative to pricing on commodity contracts driven by changes in WTI and WCS differential prices as well as fluctuations in foreign exchange rates.

Unrealized gain on risk management contracts were $1.0 million for the fourth quarter of 2022 (Q3 2022 - $7.9 million unrealized gain; Q4 2021 – $1.3 million unrealized loss) and unrealized gain on risk management contracts were $2.0 million for the twelve months ended December 31, 2022 (2021 - unrealized loss of $1.3 million). Unrealized gains and losses represent the change in mark-to-market value of risk management contracts as forward commodity prices and foreign exchange rates change. Unrealized gains and losses on risk management contracts are excluded from the Company's calculation of cash flow from (used in) operating activities as non-cash items. Risk management contract gains and losses vary depending on the nature and extent of the risk management contracts in place, which in turn, vary with the Company's assessment of commodity price risk, committed capital spending and other factors.

Royalties

($ thousands, except as noted)	Three months ended December 31, 2022	2021	Twelve months ended December 31, 2022	2021[1]
Oil royalties – Crown	**481**	277	**2,446**	287
Oil royalties – freehold	**909**	127	**3,267**	204
Total royalties	**1,390**	404	**5,713**	491
$/boe	**6.93**	7.28	**9.37**	6.95
Crown *(% of oil revenue)*[2]	**3.4**	7.1	**4.5**	5.8
Freehold and overriding *(% of oil revenue)*[2]	**6.3**	3.2	**6.0**	4.1
Total *(% of oil revenue)*[2]	**9.7**	10.3	**10.5**	9.9

(1) The 2021 comparable period reflects operating results from September 3, 2021, the effective date of the completion of the Arrangement, to December 31, 2021.
(2) Non-GAAP ratio. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.

Total royalties for the fourth quarter of 2022 were $1.4 million, relatively consistent with the third quarter of 2022 (Q3 2022 - $1.4 million) and an increase from the fourth quarter of 2021 (Q4 2021 - $0.4 million). On a per boe basis, royalties decreased in the fourth quarter to $6.93/boe (Q3 2022 – $8.54/boe; Q4 2021 - $7.28/boe). Royalties as a percentage of revenue for the fourth quarter were 9.7%, a decrease from 10.1% in the third quarter of 2022 and 10.3% in the fourth quarter of 2021.

For the twelve months ended December 31, 2022, royalties were $5.7 million (2021 – $0.5 million), $5.2 million (1064%) higher than the prior year as a result of increased production. On a per boe basis, royalties were up 35% to $9.37/boe (2021 – $6.95/boe) as prices increased. Royalties as a percentage of revenue for 2022 were 10.5%, an increase from 9.9% in 2021.

Rubellite's royalties consists of Crown royalties payable to the Alberta provincial government and other freehold and gross overriding ("GORR") royalties. The mix between Crown and freehold production as a percentage of total production can change the composition of royalties from one period to the next. Under the Alberta Modernized Royalty Framework ("MRF"), the Company paid a flat Crown royalty of 5% on wells where mineral rights are leased from the Crown with the remainder of royalties attributable to the composition of freehold and GORR royalties.

Production and operating expenses

($ thousands, except as noted)	Three months ended December 31, 2022	2021	Twelve months ended December 31, 2022	2021[1]
Production and operating expenses	**1,226**	684	**4,399**	802
$/boe	**6.11**	12.35	**7.22**	11.36

(1) The 2021 comparable period reflects operating results from September 3, 2021, the effective date of the completion of the Arrangement, to December 31, 2021.

Total production and operating expenses for the fourth quarter of 2022 increased 71% when compared to the third quarter of 2022 (Q3 2022 - $0.7 million), driven by the increase in sales volumes quarter-over-quarter. Total production and operating expenses per boe increased 38% to $6.11/boe for the fourth quarter, compared to $4.42/boe for the third quarter of 2022. The increase was due to higher water disposal and well servicing costs, combined with higher labor, water handling and chemicals costs in the fourth quarter of 2022. Savings from the capital invested in two water disposal wells are not yet reflected as fully optimized facilities were not operating until Q1 2023.

Total production and operating expenses in the three and twelve months ended December 31, 2022 increased from the comparative periods on higher production volumes. Total production and operating expenses decreased 51% and 36%, respectively, on a per boe basis to $6.11/boe for the fourth quarter of 2022 and to $7.22/boe for 2022 as more wells come on production throughout the year, the fixed components of production and operating expenses were spread across higher volumes.

Transportation costs

($ thousands, except as noted)	Three months ended December 31, 2022	2021	Twelve months ended December 31, 2022	2021[1]
Transportation costs	**1,690**	323	**4,448**	410
$/boe	**8.42**	5.83	**7.30**	5.82

(1) The 2021 comparable period reflects operating results from September 3, 2021, the effective date of the completion of the Arrangement, to December 31, 2021.

Transportation costs include clean oil trucking costs. For the fourth quarter of 2022, transportation costs were $1.7 million, a 42% increase from the third quarter of 2022 (Q3 2022 - $1.2 million) on higher sales volumes. On a per boe basis, transportation costs were higher at $8.42/boe in the fourth quarter (Q3 2022 – $7.45/boe) as a result of increased sales volumes at Figure Lake which incurs higher trucking costs based on location and distance.

Transportation costs for the three and twelve months ended December 31, 2022 increased from the comparative periods on higher production volumes. On a per boe basis, transportation costs increased 44% and 25%, respectively, to $8.42/boe for the fourth quarter of 2022 and $7.30/boe for 2022 as a result of higher fuel prices and fuel surcharges and increased production weighting to Figure Lake which has higher trucking costs.

Operating netbacks

"Operating netback" is a non-GAAP measure determined by deducting royalties, production and operating expenses, and transportation costs from oil 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 to evaluate its operational performance as it demonstrates its profitability relative to commodity prices. Operating netback is not a standardized measure and, therefore, may not be comparable with the calculation of similar measures by other entities.

The following table highlights Rubellite's operating netbacks**:**

($/boe) ($ thousands)	Three months ended December 31, **2022**		2021		Twelve months ended December 31, **2022**		2021[1]	
Production *(bbl/d)*				603				593
Oil revenue	**71.42**	**14,329**	70.94	3,931	**89.38**	**54,491**	69.76	4,923
Royalties	**(6.93)**	**(1,390)**	(7.28)	(404)	**(9.37)**	**(5,713)**	(6.95)	(491)
Production and operating expenses	**(6.11)**	**(1,226)**	(12.35)	(684)	**(7.22)**	**(4,399)**	(11.36)	(802)
Transportation costs	**(8.42)**	**(1,690)**	(5.83)	(323)	**(7.30)**	**(4,448)**	(5.82)	(410)
Operating netback[2]	**49.96**	**10,023**	45.48	2,520	**65.49**	**39,931**	45.63	3,220
Realized gains (losses) on risk management contracts	**(3.37)**	**(676)**	1.83	101	**(21.56)**	**(13,142)**	1.44	101
Total operating netback, after risk management contracts	**46.59**	**9,347**	47.31	2,621	**43.93**	**26,789**	47.07	3,321

(1) The 2021 comparable period reflects operating results from September 3, 2021, the effective date of the Arrangement, to December 31, 2021.
(2) Non-GAAP measure. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.

For the fourth quarter of 2022, Rubellite's operating netback was $10.0 million ($49.96/boe) compared to $2.5 million ($45.48/boe) in the fourth quarter of 2021 as a result of increased production. On a per boe basis, the increase was driven by lower royalties and production and operating expenses, partially offset by increased transportation costs.

For the fourth quarter of 2022, Rubellite's operating netback, including risk management contracts, was $9.3 million ($46.59/boe) compared to $2.6 million ($47.31/boe) in the fourth quarter of 2021. Realized losses on risk management contracts reduced operating netbacks by $0.7 million ($3.37/boe) as compared to a realized gain of $0.1 million ($1.83/boe) in the fourth quarter of 2021.

For 2022, Rubellite's operating netback, was $39.9 million ($65.49/boe) compared to $3.2 million ($45.63/boe) in 2021 as a result of increased production. On a per boe basis, the increase was driven by higher oil prices and lower production and operating expenses, partially offset by increased royalties and transportation costs. Rubellite's operating netback, including risk management contracts, was $26.8 million ($43.93/boe) compared to $3.3 million ($47.07/boe) in 2021. Realized losses on risk management contracts reduced operating netbacks by $13.1 million ($21.56/boe) as compared to a realized gain of $0.1 million ($1.44/boe) in 2021.

General and administrative ("G&A") expenses

($ thousands, except as noted)	Three months ended December 31, **2022**	2021	Twelve months ended December 31, **2022**	2021[1]
G&A expenses – excluding MSA costs[2]	**375**	180	**1,457**	316
G&A expenses – MSA costs[2]	**561**	303	**1,859**	359
Total G&A expenses	**936**	483	**3,316**	675
$/boe	**4.67**	8.70	**5.44**	9.55

(1) The 2021 comparable period reflects operating results from September 3, 2021, the effective date of the completion of the Arrangement, to December 31, 2021.
(2) In conjunction with the Arrangement, Rubellite has a MSA with Perpetual whereby Rubellite makes payment for certain technical and administrative services provided to Rubellite on a relative production split cost sharing basis.

In conjunction with the Arrangement, Rubellite entered into a Management and Operating Services Agreement ("MSA") with Perpetual whereby Rubellite makes payments for certain technical and administrative services provided to Rubellite on a relative production split cost sharing basis. For the three and twelve months ended December 31, 2022, the costs billed under the MSA to Rubellite were $0.6 million and $1.9 million, respectively. Fourth quarter MSA costs increased from comparative periods on increased production.

During the fourth quarter of 2022, G&A expenses, excluding MSA costs, were $0.4 million an increase from third quarter costs of $0.2 million. For the three and twelve months ended December 31, 2022, G&A expenses, excluding MSA costs increased over the comparative periods. General and administrative expenses, excluding MSA costs, consist primarily of legal fees, information systems licenses, audit fees, reserves assessment and tax related consulting fees which have increased as Rubellite's operations have grown throughout 2022.

On a per boe basis, G&A costs decreased as higher MSA and G&A costs were offset by higher production.

Depletion

($ thousands, except as noted)	Three months ended December 31, **2022**	2021	Twelve months ended December 31, **2022**	2021[1]
Depletion	**4,607**	1,095	**13,462**	1,389
$/boe	**22.96**	19.74	**22.08**	19.68

(1) The comparable period of 2021 reflects operating results from September 3, 2021, the effective date of the completion of the Arrangement, to December 31, 2021.

The Company calculates depletion using the net book value of the asset, future development costs associated with proved and probable reserves, salvage values on associated production equipment, as well as proved plus probable reserves. As at December 31, 2022, depletion was calculated on a $140.3 million depletable balance (December 31, 2021 – $74.0 million), $105.6 million in future development costs (December 31, 2021 – $46.5 million) and excluded an estimated $0.8 million of salvage value (December 31, 2021 – $0.4 million).

Depletion expense for the fourth quarter of 2022 was $4.6 million or $22.96/boe (Q4 2021 – $1.1 million or $19.74/boe) and for the twelve months ended December 31, 2022 was $13.5 million or $22.08/boe (2021 - $1.4 million or $19.68/boe). The increase from the comparative periods of 2022 reflects the increase in sales production volumes, and an increase in the depletable base on higher capital spending and proved plus probable reserves.

Impairment

There were no indicators of impairment for the Company's cash-generating unit ("CGU") as at December 31, 2022 and therefore, an impairment test was not performed.

The Company transferred $7.9 million of E&E to PP&E during 2022 and performed the required impairment test to estimate the recoverable amount of the CGU. It was determined that the recoverable amount of the CGU exceeded its carrying value, resulting in no impairment.

Finance expense

	Three months ended December 31,		Twelve months ended December 31,	
($ thousands)	**2022**	2021	**2022**	2021[1]
Cash finance expense (income)				
Interest on revolving bank debt	**215**	(20)	**343**	(20)
Total cash finance expense	**215**	(20)	**343**	(20)
Non-cash finance expense				
Accretion on decommissioning obligations	**23**	7	**67**	6
Total non-cash finance expense	**23**	7	**67**	6
Finance expense (income)	**238**	(13)	**410**	(14)

(1) The comparable period of 2021 reflects operating results from September 3, 2021, the effective date of the completion of the Arrangement, to December 31, 2021.

Total cash finance expense for the three and twelve months ended December 31, 2022 was $0.2 million and $0.3 million, higher than the comparative periods as a result of interest paid on higher outstanding bank debt as compared to interest income earned on cash balances in 2021. Non-cash finance expense represents accretion on decommissioning obligations.

LIQUIDITY, CAPITALIZATION AND FINANCIAL RESOURCES

Rubellite's strategy targets the maintenance of a strong capital base to retain investor, creditor and market confidence to support the execution of its business plans. The Company manages its capital structure and adjusts its capital spending in light of changes in economic conditions, available liquidity, and the risk characteristics of its underlying heavy oil assets. The Company considers its capital structure to include share capital, revolving bank debt, and adjusted working capital. To manage its capital structure and available liquidity, the Company may from time to time issue equity or debt securities, sell assets, and adjust its capital spending to manage current and projected debt levels. The Company will continue to regularly assess changes to its capital structure, with considerations for both short-term liquidity and long-term financial sustainability.

Rubellite uses net debt, adjusted working capital, enterprise value, free funds flow and trailing twelve-months adjusted funds flow as important indicators of capital resources, management and liquidity. These are not standardized measures, and therefore may not be comparable with the calculation of similar measures by other entities, refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A.

Capital Management

(*$ thousands, except as noted*)	**December 31, 2022**	September 30, 2022	December 31, 2021
Revolving bank debt	**12,000**	—	—
Adjusted working capital deficit (surplus)[1]	**16,228**	12,942	(5,375)
Net debt (asset)[1]	**28,228**	12,942	(5,375)
Shares outstanding at end of period (*thousands*)	**54,826**	54,816	43,809
Market price at end of period (*$/share*)	**1.85**	2.37	2.24
Market value of shares[1]	**101,428**	129,914	98,132
Enterprise value[1]	**129,656**	142,856	92,757
Net debt (asset) as a percentage of enterprise value[2]	**22%**	9%	(6)%
Trailing twelve-months adjusted funds flow[1] [3]	**23,036**	16,360	—
Net debt to adjusted funds flow ratio[2][3]	**1.2**	0.8	—

(1) Non-GAAP measure. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.
(2) Non-GAAP ratio. Refer to the section entitled "Non-GAAP and Other Financial Measures" for an explanation of composition.
(3) No comparable available due to incorporation of Rubellite on July 12, 2021.

At December 31, 2022, Rubellite had net debt of $28.2 million, an increase from net debt of $12.9 million at September 30, 2022 and $5.4 million net asset at December 31, 2021. Net debt increased as exploration and development capital expenditures, including land and acquisitions of $94.2 million during 2022 exceeded adjusted funds flow of $23.0 million and the proceeds from the $38.7 million equity financings that closed during the first quarter of 2022.

Rubellite had available liquidity at December 31, 2022 of $30.0 million, comprised of the $40.0 million Credit Facility Borrowing Limit less current borrowings of $12.0 million and cash and cash equivalents of $2.0 million.

Revolving bank debt

During the year ended December 31, 2022, the Company's first lien Credit Facility was increased from $3.0 million to $40.0 million, with an initial term to May 31, 2023 and 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 May 31, 2023.

As at December 31, 2022, $12.0 million (December 31, 2021 - nil) was drawn against the Credit Facility. Borrowings under the credit facility bear interest at its lenders' prime rate or Bankers Acceptance rates, plus applicable margins and standby fees. The applicable Banker's Acceptance margins range between 3.0% and 5.5%. The effective interest rate on the Credit Facility at December 31, 2022 was 7.5%. For the year ended December 31, 2022, if interest rates changed by 1% with all other variables held constant, the impact on annual cash finance expense and net income would be $0.1 million.

The Credit Facility is secured by general first lien security agreements covering all present and future property of the Company and its subsidiaries.

At December 31, 2022, the Credit Facility was not subject to any financial covenants and the Company was in compliance with all customary non-financial covenants.

Equity

At December 31, 2022 there were 54.8 million common shares and 4.0 million Share Purchase Warrants outstanding. The Share Purchase Warrants have an exercise price of $3.00 per share and expire on October 5, 2026. On March 30, 2022, Rubellite completed an equity financing, raising gross proceeds of $38.7 million through the issuance of approximately 10.9 million shares priced at $3.55 per share.

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

(thousands)	**March 9, 2023**
Restricted share units	371
Share options	1,668
Performance share units	348
Total	**2,387**

Commodity price risk management

As at March 9, 2023, the Company had entered into the following commodity risk management contracts:

Commodity	**Volumes sold** *(bbl/d)*	**Term**	**Reference/Index**	**Contract Traded Bought/sold**	**Average Price** *($/bbl)*
Crude Oil	200 bbl/d	Jan 1 – Dec 31, 2023	WCS Differential (CAD$/bbl)	Swap – sold	($17.75)
Crude Oil	200 bbl/d	Apr 1 - Jun 30, 2023	WCS Differential (CAD$/bbl)	Swap - sold	($20.65)
Crude Oil	850 bbl/d	Apr 1 - Dec 31, 2023	WCS Differential (USD$/bbl)	Swap - sold	($17.48)
Crude Oil	250 bbl/d	Jul 1 - Sep 30, 2023	WCS Differential (USD$/bbl)	Swap - sold	($15.50)
Crude Oil	250 bbl/d	Oct 1 - Dec 31, 2023	WCS Differential (USD$/bbl)	Swap - sold	($16.75)
Crude Oil	250 bbl/d	Jan 1 - Dec 31, 2024	WCS Differential (USD$/bbl)	Swap - sold	($17.50)
Crude Oil	200 bbl/d	Jan 1 – Dec 31, 2023	WTI (USD$/bbl)	Swap – sold	$76.83
Crude Oil	200 bbl/d	Apr 1 - Jun 30, 2023	WTI (CAD$/bbl)	Swap – sold	$107.90
Crude Oil	600 bbl/d	Apr 1 - Dec 31, 2023	WTI (USD$/bbl)	Swap - sold	$76.56

Foreign exchange risk management

As at March 9, 2023, the Company entered into the following foreign exchange risk management contracts:

Contract	**Notional amount**	**Term**	**Price (US$/CAD$)**
US$/CAD$	$500,000 US$/month	Jan 1 – Dec 31, 2023	1.3039
US$/CAD$	$1,000,000 US$/month	Jan 1 – Dec 31, 2023	1.3710
US$/CAD$	$250,000 US$/month	Jan 1 – Dec 31, 2023	1.3600
US$/CAD$	$250,000 US$/month	Apr 1 - Dec 31, 2023	1.3700

ANNUAL HISTORICAL FINANCIAL AND OPERATING HIGHLIGHTS

($ thousands, except as noted)	**2022**	2021[1]
Financial		
Oil revenue	**54,491**	4,923
Net income	**24,605**	7,702
Per share – basic[4]	**0.47**	0.34
Per share – diluted[4]	**0.47**	0.33
Total Assets	**204,030**	115,862
Cash flow from operating activities	**23,870**	1,115
Adjusted funds flow[2]	**23,036**	1,595
Per share – basic[3][4]	**0.44**	0.07
Per share – diluted[3][4]	**0.44**	0.07
Common shares (thousands)		
Weighted average – basic	**52,093**	22,702
Weighted average – diluted	**52,471**	23,228
Operating		
Daily average oil sales production (bbl/d)[5]	**1,670**	593
Rubellite average realized oil price[3]		
Average realized oil price ($/bbl)	**89.38**	69.76
Average realized oil price – after risk management contracts($/bbl)	**67.82**	71.20

(1) The 2021 comparable period reflects operating results from September 3, 2021, the effective date of the Arrangement, to December 31, 2021. No comparative information available for 2020.
(2) Non-GAAP measure. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.
(3) Non-GAAP ratio. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.
(4) Per share amounts are calculated using the weighted average number of basic or diluted common shares.
(5) Conventional heavy oil sales production excludes tank inventory volumes.

SUMMARY OF QUARTERLY RESULTS

($ thousands, except as noted)	**Q4 2022**	**Q3 2022**	**Q2 2022**	**Q1 2022**	**Q4 2021**	**Q3 2021[1]**
Financial						
Oil revenue	**14,329**	13,654	15,632	10,876	3,931	992
Net income (loss)	**18,725**	10,426	4,726	(9,272)	(1,265)	8,967
Per share – basic[4]	**0.34**	0.19	0.09	(0.21)	(0.03)	12.34
Per share – diluted[4]	**0.34**	0.19	0.08	(0.21)	(0.03)	5.16
Total assets	**204,030**	170,206	160,202	164,009	115,862	132,370
Cash flow from (used in) operating activities	**14,950**	(745)	6,473	3,192	1,115	—
Adjusted funds flow[2]	**8,145**	6,459	4,597	3,835	1,469	378
Per share – basic[3][4]	**0.15**	0.12	0.09	0.09	0.03	0.70
Per share – diluted[3][4]	**0.15**	0.12	0.09	0.09	0.03	0.29
Common shares (thousands)						
Weighted average – basic	**54,824**	54,748	54,725	43,930	41,834	726
Weighted average – diluted	**55,202**	55,265	55,797	43,930	41,834	1,739
Operating						
Daily average oil sales production (bbl/d)[5]	**2,181**	1,760	1,478	1,251	603	561
Rubellite average realized oil price[3]						
Average realized oil price ($/bbl)	**71.42**	84.31	116.21	96.61	70.94	65.52
Average realized oil price – after risk management contracts($/bbl)	**68.05**	65.82	70.09	67.57	72.77	65.52

(1) The 2021 comparable period reflects operating results from September 3, 2021, the effective date of the Arrangement, to September 30, 2021.
(2) Non-GAAP measure. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.
(3) Non-GAAP ratio. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.
(4) Per share amounts are calculated using the weighted average number of basic or diluted common shares.
(5) Conventional heavy oil sales production excludes tank inventory volumes.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

Rubellite has no operating commitments.

OFF BALANCE SHEET ARRANGEMENTS

Rubellite has no off balance sheet arrangements.

RELATED PARTY TRANSACTIONS

During the year ended December 31, 2022 Rubellite was billed by Perpetual for net transactions, which are considered to be normal course of oil and gas operations, totaling $5.6 million (December 31, 2021 - $1.4 million). Included within this amount are $1.9 million (December 31, 2021 - $0.4 million) of costs charged to Rubellite through the MSA. The Company recorded an accounts payable of $0.6 million owing to Perpetual as at December 31, 2022 (December 31, 2021 - accounts receivable of $3.9 million and accounts payable of $3.8 million owing from/to, respectively).

NON-GAAP AND OTHER FINANCIAL MEASURES

Throughout this MD&A and in other materials disclosed by the Company, Rubellite employs certain measures to analyze financial performance, financial position and cash flow. These non-GAAP and other financial measures do not have any standardized meaning prescribed under IFRS and therefore may not be comparable to similar measures presented by other entities. The non-GAAP and other financial measures should not be considered to be more meaningful than GAAP measures which are determined in accordance with IFRS, such as net income (loss), cash flow from (used in) operating activities, and cash flow from (used in) investing activities, as indicators of Rubellite's performance.

Non-GAAP Financial Measures

Capital Expenditures: Rubellite uses capital expenditures related to exploration and development to measure its capital investments compared to the Company's annual capital budgeted expenditures. Rubellite's capital budget excludes acquisition and disposition activities.

The most directly comparable GAAP measure for capital expenditures is cash flow from (used in) investing activities. A summary of the reconciliation of cash flow from (used in) investing activities to capital expenditures, is set forth below:

	Three months ended December 31,		Twelve months ended December 31,	
	2022	2021	**2022**	2021[(1)]
Net cash flows from (used in) investing activities	**(31,222)**	(71,062)	**(86,266)**	(67,161)
Acquisitions	**—**	(59,373)	**—**	(55,322)
Change in non-cash working capital	**(7,707)**	5,491	**7,941**	5,519
Capital expenditures	**(23,515)**	(17,180)	**(94,207)**	(17,358)
Property, plant and equipment additions	**(19,438)**	(1,520)	**(67,626)**	(1,547)
Exploration and evaluation additions	**(4,077)**	(15,660)	**(26,581)**	(15,811)
Capital expenditures	**(23,515)**	(17,180)	**(94,207)**	(17,358)

(1) The comparable period of 2021 reflects operating results from September 3, 2021, the effective date of the completion of the Arrangement, to December 31, 2021.

Cash costs: Cash costs are comprised of production and operating, transportation, general and administrative, and cash finance expense as detailed below. Cash costs per boe is calculated by dividing cash costs by total production sold in the period. Management believes that cash costs assist management and investors in assessing Rubellite's efficiency and overall cost structure.

	Three months ended December 31,		Twelve months ended December 31,	
(*$ thousands, except per boe amounts*)	**2022**	2021	**2022**	2021
Production and operating	**1,226**	684	**4,399**	802
Transportation	**1,690**	323	**4,448**	410
General and administrative	**936**	483	**3,316**	675
Cash finance expense	**215**	(20)	**343**	(20)
Cash costs	**4,067**	1,470	**12,506**	1,867
Cash costs per boe	**20.27**	26.50	**20.51**	26.46

Operating netbacks and total operating netbacks after risk management contracts: Operating netback is calculated by deducting royalties, production and operating expenses, and transportation costs from oil revenue. Operating netback is also calculated on a per boe basis using total production sold in the period. Total operating netbacks after risk management contracts is presented after adjusting for realized gains or losses from risk management contracts. Rubellite considers operating netback and operating netback after risk management contracts to be key industry performance indicators that provides investors with information that is also commonly presented by other crude oil and natural gas producers. Operating netback and operating netback after risk management contracts evaluate operational performance as it demonstrates its profitability relative to realized and current commodity prices.

Refer to reconciliations in the MD&A under the "Operating Netbacks" section for current year and 2021 comparative information. The table below provides a comparative to the third quarter of 2022, which is referenced throughout this document:

	Three months ended December 31,		Three months ended September 30,	
($/boe) ($ thousands)		**2022**		2022
Production *(bbl/d)*		**2,250**		1,760
Oil revenue	**71.42**	**14,329**	84.31	13,654
Royalties	**(6.93)**	**(1,390)**	(8.54)	(1,383)
Production and operating expenses	**(6.11)**	**(1,226)**	(4.42)	(716)
Transportation costs	**(8.42)**	**(1,690)**	(7.45)	(1,207)
Operating netback[2]	**49.96**	**10,023**	63.90	10,348
Realized gains (losses) on risk management contracts	**(3.37)**	**(676)**	(18.49)	(2,994)
Total operating netback, after risk management contracts	**46.59**	**9,347**	45.41	7,354

Net Debt (Asset): Rubellite uses net debt or asset as an alternative measure of outstanding debt. Management considers net debt or asset as an important measure in assessing the liquidity of the Company. Net debt or asset is used by management to assess the Company's overall debt position and borrowing capacity. Net debt or asset is not a standardized measure and therefore may not be comparable to similar measures presented by other entities.

The following table reconciles working capital and net debt (asset) as reported in the Company's statements of financial position:

	As of December 31, 2022	As of September 30, 2022	As of December 31, 2021
Current assets	**13,262**	14,059	22,441
Current liabilities	**(28,802)**	(27,427)	(18,317)
Working capital (surplus) deficiency	**15,540**	13,368	(4,124)
Risk management contracts – current asset	**1,437**	1,218	62
Risk management contracts – current liability	**(749)**	(1,644)	(1,313)
Adjusted working capital (surplus) deficiency	**16,228**	12,942	(5,375)
Bank indebtedness	**12,000**	—	—
Net debt (asset)	**28,228**	12,942	(5,375)

Adjusted funds flow: Adjusted funds flow is calculated based on net cash flows from 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.

Adjusted funds flow is not intended to represent net cash flows from operating activities calculated in accordance with IFRS.

The following table reconciles net cash flows from (used in) operating activities, as reported in the Company's statements of cash flows, to adjusted funds flow:

	Three months ended December 31,		Twelve months ended December 31,	
($ thousands, except as noted)	**2022**	2021	**2022**	2021[1]
Net cash flows from (used in) operating activities	**14,950**	1,115	**23,870**	1,115
Change in non-cash working capital	**(6,805)**	354	**(834)**	480
Adjusted funds flow	**8,145**	1,469	**23,036**	1,595
Adjusted funds flow per share - basic	**0.15**	0.03	**0.44**	0.07
Adjusted funds flow per share – diluted	**0.15**	0.03	**0.44**	0.07
Adjusted funds flow per boe	**40.60**	26.50	**37.79**	22.60

(1) The 2021 comparable period reflects operating results from September 3, 2021, the effective date of the Arrangement, to September 30, 2021.

Available Liquidity: Available liquidity is defined as the Borrowing Limit, plus any cash and cash equivalents, less any borrowings and letters of credit issued under the Credit Facility. Management uses available liquidity to assess the ability of the Company to finance capital expenditures and expenditures on decommissioning obligations, and to meet its financial obligations.

Enterprise value: Enterprise value is equal to net debt plus the market value of issued equity, and is used by management to analyze leverage. Enterprise value is calculated by multiplying the current shares outstanding by the market price at the end of the period and then adjusting it by the net debt. The Company considers enterprise value as an important measure as it normalizes the market value of the Company's shares for its capital structure.

Non-GAAP Financial Ratios

Rubellite calculates certain non-GAAP measures per boe as the measure divided by weighted average daily production. Management believes that per boe ratios are a key industry performance measure of operational efficiency and one that provides investors with information that is also commonly presented by other crude oil and natural gas producers. Rubellite also calculates certain non-GAAP measures per share as the measure divided by outstanding common shares, weighted average common shares or diluted weighted average common shares.

Average realized prices after risk management contracts: are calculated as the average realized price less the realized gain or loss on risk management contracts.

Net debt to adjusted funds flow ratio: Net debt to adjusted funds flow ratios are calculated on a trailing twelve-month basis.

Net debt as a percentage of enterprise value: Net debt as a percentage of enterprise value is calculated by dividing net debt by enterprise value.

Adjusted funds flow per share: Adjusted funds flow ratios are calculated on a per share as the measure divided by basic shares outstanding.

Adjusted funds flow per boe: Adjusted funds flow per boe is calculated as adjusted funds flow divided by total production sold in the period.

Supplementary Financial Measures

"Average realized oil price" is comprised of total oil revenue, as determined in accordance with IFRS, divided by the Company's total sales oil production on a per barrel basis.

"Average realized price after gain or loss on risk management" is comprised of realized gain on risk management contracts, as determined in accordance with IFRS, divided by the Company's total sales oil production.

"Realized gain (loss) on oil contracts per boe" is comprised of the realized gain or loss on oil contracts, as determined in accordance with IFRS, divided by the Company's total oil sales production.

"Royalties as a percentage of oil revenue" is comprised of royalties, as determined in accordance with IFRS, divided by oil revenue from sales oil production as determined in accordance with IFRS.

"Royalties per boe" is comprised of royalties, as determined in accordance with IFRS, divided by the Company's total sales oil production.

"Production and operating expense per boe" is comprised of operating expense, as determined in accordance with IFRS, divided by the Company's total sales oil production.

"Transportation cost per boe" is comprised of transportation cost, as determined in accordance with IFRS, divided by the Company's total sales oil production.

"G&A expense per boe" is comprised of G&A expense, as determined in accordance with IFRS, divided by the Company's total sales oil production.

"Depletion expense per boe" is comprised of depletion expense, as determined in accordance with IFRS, divided by the Company's total sales oil production.

“Market value of shares” is comprised of common shares outstanding multiplied by the market price of shares.

“Heavy oil wellhead differential” represents the differential the company receives for selling its heavy crude oil production relative to the Western Canadian Select reference price (Cdn$/bbl) prior to any price or risk management activities.

FUTURE ACCOUNTING PRONOUNCEMENTS

The International Accounting Standards Board (“IASB”) and the IFRS Interpretations Committee regularly issue new and revised accounting pronouncements which have future effective dates and therefore are not reflected in Rubellite’s financial statements. Once adopted, these new and amended pronouncements may have an impact on Rubellite’s financial statements. Rubellite’s analysis of recent accounting pronouncements is included in the notes to the financial statements at December 31, 2022.

RISK FACTORS

The Corporation is exposed to business risks that are inherent in the oil and gas industry, as well as those governed by the individual nature of Rubellite’s operations. Risks impacting the business which influence controls and management of the Corporation include, but are not limited to, the following:

- drilling, exploration, development, geological, engineering and completion risks;
- the uncertainty of discovering commercial quantities of new reserves;
- commodity prices, interest rate and foreign exchange risks;
- access to capital;
- political and geopolitical risks;
- competition;
- cybersecurity risks;
- inflation and supply chain risks;
- risks relating to pandemics (including COVID-19); and
- changes to government regulations including royalty regimes and tax legislation.

Rubellite manages these risks by:

- attracting and retaining a team of highly qualified and motivated professionals who have a vested interest in the success of the Corporation;
- prudent operation of oil and natural gas properties;

- employing risk management instruments and policies to manage exposure to volatility of commodity prices, interest rates and foreign exchange rates;
- maintaining a flexible financial position;
- maintaining strict environmental, safety and health practices; and
- active participation with industry organizations to monitor and influence changes in government regulations and policies.

A complete discussion of risk factors is included in the Corporation's 2022 Annual Information Form available on the Corporation's website at www.rubelliteenergy.com or on SEDAR at www.sedar.com.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Rubellite's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICOFR") as defined in National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS.

Disclosure controls and procedures

The DC&P have been designed to provide reasonable assurance that material information relating to Rubellite is made known to the CEO and CFO by others, and that information required to be disclosed by Rubellite in its annual filings, interim filing or other reports is filed or submitted by Rubellite under securities legislation.

Rubellite's CEO and CFO have concluded, based on their evaluation at December 31, 2022, the DC&P are designed and operating effectively to provide reasonable assurance that information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the issuer's management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure.

Management's annual report on internal controls over financial reporting

Management is responsible for establishing and maintaining adequate ICOFR, which is a process designed by, or under the supervision of, the CEO and CFO, and effected by the board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Under the supervision and with the participation of management, including the CEO and CFO, an evaluation of the effectiveness of the internal controls over financial reporting was conducted as of December 31, 2022 based on criteria described in "Internal Control – Integrated Framework" issued in 2013 by the Committee of Sponsoring Organization of the Treadway Commission. Based on this assessment, management determined that, as of December 31, 2022, the internal controls over financial reporting were designed and operating effectively.

INTERNAL CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

There were no changes in the Corporation's internal control over financial reporting during the period beginning on October 1, 2022 and ended December 31, 2022 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

CEO and CFO certifications

Rubellite's CEO and CFO have filed with the Canadian securities regulators regarding the quality of Rubellite's public disclosures relating to its fiscal 2022 filings with the Canadian securities regulators.

CRITICAL ACCOUNTING JUDGEMENTS 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.

Rubellite's financial and operational results incorporate certain estimates including:

- estimated commodity sales from production at a specific reporting date for which actual revenues have not yet been received, including associated estimated credit losses;
- estimated royalty obligations, transportation, and operating expenses at a specific reporting date for which costs have been incurred but have not yet been settled;
- estimated capital spending on projects that are in progress;
- estimated depletion charges and deferred tax assets that are based on estimates of reserves that Rubellite expects to recover in the future;
- estimated future recoverable value of PP&E and E&E and any associated impairment charges or reversals;
- estimated fair values of financial instruments that are subject to fluctuation depending upon the underlying forward curves for commodity prices, foreign exchange rates and interest rates, as well as volatility curves, and the risk of non-performance;
- estimated value of ARO that is dependent upon estimates of future costs and timing of expenditures;
- estimated compensation expense under Rubellite's share-based compensation plans including the PSUs awarded under the PSU Plans that are dependent on the final number of PSU awards that eventually vest based on a performance multiplier; and
- estimated fair values of assets acquired and liabilities assumed in a business combination.

FORWARD-LOOKING INFORMATION

Certain information in this MD&A including management's assessment of future plans and operations, and including the information contained under the headings "Operations Update" and "Outlook and Guidance" may constitute forward-looking information or statements (together "forward-looking information") under applicable securities laws. The forward-looking information includes, without limitation, statements with respect to: future capital expenditure and production forecasts; the anticipated sources of funds to be used for capital spending; expectations as to drilling activity plans in various areas and the benefits to be derived from such drilling including production growth; expectations respecting Rubellite's future exploration, development and drilling activities and Rubellite's business plan; and including the information and statements contained under the heading "Outlook and Guidance".

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 successful operation of the Clearwater assets; forecast commodity prices and other pricing assumptions; forecast production volumes based on business and market conditions; foreign exchange and interest rates; near-term pricing and continued volatility of the market; 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; Rubellite's ability to operate under the management of Perpetual pursuant to the MSA; 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, supply chain access 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 and the war in Ukraine and related sanctions 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 Rubellite's Annual Information Form and MD&A for the year ended December 31, 2022 and in other reports on file with Canadian securities regulatory authorities which may be accessed through the SEDAR website www.sedar.com and at Rubellite's website www.rubelliteenergy.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.

ABBREVIATIONS AND CONVENTIONS

The following is a list of abbreviations that may be used in this MD&A:

Measurement:

bbl	barrel
bbl/d	barrels per day
Mbbl	thousand barrels
MMbbl	million barrels
boe(1)	barrels of oil equivalent
boe/d(1)	barrels of oil equivalent per day
Mboe(1)	thousands of barrels of oil equivalent

Industry Metrics:

This MD&A contains certain industry 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.

Volume Conversions:

Barrel of oil equivalent ("boe") may be misleading, particularly if used in isolation. In accordance with National Instrument 51-101 ("NI 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 heavy 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. Refer to the "Fourth Quarter Financial and Operating Results" section in this MD&A for details of constituent product components that comprise Rubellite's boe production.

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. 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.

Financial and Business Environment:

E&E	Exploration and evaluation
ESG	Environmental, social and governance
GAAP	Generally accepted accounting principles
G&A	General and administrative
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
PP&E	Property, plant and equipment
WTI	West Texas Intermediate
WCS	Western Canadian Select

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S REPORT

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

The financial statements are audited and have been prepared using accounting policies in accordance with IFRS. The preparation of Management's Discussion and Analysis is based on the Company's financial results which have been prepared in accordance with IFRS. It examines the Company's financial performance in 2022 to 2021 and should be read in conjunction with the financial statements and accompanying notes.

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

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

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

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

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

Susan Riddell Rose

Susan L. Riddell Rose

President &
Chief Executive Officer

Ryan Shay

Ryan A. Shay

Vice President, Finance &
Chief Financial Officer

March 9, 2023

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Rubellite Energy Inc.

Opinion

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

- the statements of financial position as at December 31, 2022 and December 31, 2021
- the statements of income and comprehensive income for the year ended December 31, 2022 and for the period from incorporation on July 12, 2021 to December 31, 2021
- the statements of changes in equity for the year ended December 31, 2022 and for the period from incorporation on July 12, 2021 to December 31, 2021
- the statements of cash flows for the year ended December 31, 2022 and for the period from incorporation on July 12, 2021 to December 31, 2021
- and notes to the financial statements, including a summary of significant accounting policies

Hereinafter referred to as the "financial statements".

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022 and December 31, 2021, and its financial performance and its cash flows for the year ended December 31, 2022 and for the period from incorporation on July 12, 2021 to December 31, 2021 in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Basis for Opinion

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

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Assessment of the impact of estimated proved and probable oil and gas reserves on property, plant and equipment ("PP&E") and the deferred tax asset ("DTA").

Description of the matter

We draw attention to note 2, note 3, note 5 and note 6 to the financial statements. The Company uses estimated proved and probable oil and gas reserves to deplete its development and production assets included in PP&E, to assess for indicators of impairment on the Company's cash generating unit ("CGU") and if any such indicators exist, to perform an impairment test to estimate the recoverable amount of the CGU, to assess exploration and evaluation ("E&E") costs for impairment when transferred to PP&E and to determine if it is probable that future taxable profits will be sufficient to utilize the underlying deductible temporary differences and unused tax losses associated with the DTA.

The Company has $135.9 million of PP&E as of December 31, 2022.

The Company transferred $7.9 million of E&E to PP&E during 2022 and performed the required impairment test to estimate the recoverable amount of the CGU. It was determined the recoverable amount of the CGU exceeded its carrying value, resulting in no impairment.

The estimated recoverable amount of the CGU involves significant estimates including:

- The estimate of proved and probable oil and gas reserves
- The discount rates.

The Company depletes its net carrying value of development and production assets 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, taking into account estimated forecasted future development costs necessary to bring those reserves into production. Depletion expense on development and production assets was $14.0 million for the year ended December 31, 2022.

The Company recognized a deferred tax asset of $24.6 million at December 31, 2022. The determination of probable future taxable profits involves significant estimates, including proved and probable oil and gas reserves.

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

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

The Company engages independent third party reserve evaluators to estimate proved and probable oil and gas reserves.

Why the matter is a key audit matter

We identified the assessment of the impact of estimated proved and probable oil and gas reserves on PP&E and the DTA as a key audit matter. Significant auditor judgment was required to evaluate the results of our audit procedures regarding the estimate of proved and probable oil and gas reserves and discount rates. Additionally, the assessment of the recoverable amount for impairment and the measurement of the DTA requires the use of professionals with specialized skills and knowledge in valuation and tax.

How the matter was addressed in the audit

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

We assessed the depletion expense calculation and measurement of the DTA for compliance with IFRS as issued by the IASB.

With respect to the estimate of proved and probable oil and gas reserves:

- We evaluated the competence, capabilities and objectivity of the independent third party reserve evaluators engaged by the Company
- We compared forecasted oil and gas commodity prices to those published by other independent third party reserve evaluators
- We compared the 2022 actual production, operating costs, royalty costs and development costs of the Company to those estimates used in the prior year's estimate of proved oil and gas reserves to assess the Company's ability to accurately forecast
- We evaluated the appropriateness of forecasted production and forecasted operating costs, royalty costs and future development costs assumptions by comparing to 2022 historical results. We took into account changes in conditions and events affecting the Company to assess the adjustments or lack of adjustments made by the Company in arriving at the assumptions.

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

- Evaluating the appropriateness of the discount rate by comparing the discount rate to market and other external data
- Assessing the reasonableness of the Company's estimate of the recoverable amount by comparing the Company's estimate to market metrics and other external data.

We involved income tax professionals with specialized skills and knowledge who assisted in evaluating the application of relevant tax laws and regulations and the appropriateness of the Company's estimate of future taxable profits used in the measurement of the DTA.

Other Information

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

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditor's report thereon, included in a document likely to be entitled "2022 Annual Results".

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

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

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

We have nothing to report in this regard.

The information, other than the financial statements and the auditor's report thereon, included in a document likely to be entitled "2022 Annual Results" is expected to be made available to us after the date of this auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

KPMG

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditor's report is Gregory Ronald Caldwell.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada

March 9, 2023

RUBELLITE ENERGY INC.
Statements of Financial Position

As at *(Cdn$ thousands)*		**December 31, 2022**		December 31, 2021
Assets				
Current assets				
Cash and cash equivalents	**$**	**1,950**	$	15,287
Accounts receivable		**8,522**		6,845
Prepaid expenses and deposits		**524**		247
Product inventory		**829**		—
Risk management contracts (note 15)		**1,437**		62
		13,262		22,441
Property, plant and equipment (note 4,5)		**135,949**		72,661
Exploration and evaluation (note 4,6)		**30,252**		11,614
Deferred tax asset (note 4,12)		**24,567**		9,146
Total assets	**$**	**204,030**	$	115,862
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**28,053**	$	17,004
Risk management contracts (note 15)		**749**		1,313
		28,802		18,317
Revolving bank debt (note 11)		**12,000**		—
Decommissioning obligations (note 4,7)		**3,733**		1,976
Risk management contracts (note 15)		**—**		86
Total liabilities		**44,535**		20,379
Equity				
Share capital (note 4,8)		**123,383**		85,474
Share purchase warrants (note 4,8)		**2,000**		2,000
Contributed surplus (note 9)		**1,805**		307
Retained earnings		**32,307**		7,702
Total equity		**159,495**		95,483
Total liabilities and equity	**$**	**204,030**	$	115,862

Contractual obligations (note 18)

See accompanying notes to the financial statements.

Holly Benson

Holly Benson
Director

B Shultz

Bruce Shultz
Director

RUBELLITE ENERGY INC.
Statements of Income and Comprehensive Income

(Cdn$ thousands, except per share amounts)		**December 31, 2022**		December 31, 2021[1]
Revenue				
Oil (note 10)	**$**	**54,491**	$	4,923
Royalties		**(5,713)**		(491)
		48,778		4,432
Realized gain (loss) on risk management contracts (note 15)		**(13,142)**		101
Unrealized gain (loss) on risk management contracts (note 15)		**2,025**		(1,337)
		37,661		3,196
Expenses				
Production and operating		**4,399**		802
Transportation		**4,448**		410
General and administrative (note 17)		**3,316**		675
Transaction costs (note 4)		**—**		1,071
Share based payments (note 9)		**1,724**		307
Exploration and evaluation (note 6)		**94**		—
Depletion (note 5)		**13,462**		1,389
Gain related to deferred tax on acquisition (note 4)		**—**		(9,146)
		10,218		7,688
Finance income (expense) (note 13)		**(410)**		14
Income before income tax		**9,808**		7,702
Taxes				
Deferred tax recovery (note 12)		**14,797**		—
Net income	**$**	**24,605**	$	7,702
Net income per share (note 8)				
Basic	**$**	**0.47**	$	0.34
Diluted	**$**	**0.47**	$	0.33

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

See accompanying notes to the financial statements.

RUBELLITE ENERGY INC.
Statements of Changes in Equity

	Share Capital (thousands)	Share Capital ($thousands)	Share purchase warrants	Contributed surplus	Retained earnings	Total Equity
(Cdn$ thousands, except share amounts)						
Balance at December 31, 2021	43,809	$ 85,474	$ 2,000	$ 307	$ 7,702	$ 95,483
Net income	—	—	—	—	24,605	24,605
Common shares issued, net of issue costs and deferred tax (note 8)	10,914	37,687	—	—	—	37,687
Common shares issued, share-based payment plan (note 8)	103	222	—	(226)	—	(4)
Share-based payments (note 9)	—	—	—	1,724	—	1,724
Balance at December 31, 2022	**54,826**	**$ 123,383**	**$ 2,000**	**$ 1,805**	**$ 32,307**	**$159,495**

	Share Capital (thousands)	Share Capital ($thousands)	Share purchase warrants	Contributed surplus	Retained earnings	Total Equity
(Cdn$ thousands, except share amounts)						
Net income	—	—	—	—	7,702	7,702
Issued pursuant to plan of arrangement (note 4,8)	2,128	4,141	2,000	—	—	6,141
Common shares issued, net of issue costs (note 8)	41,681	81,333	—	—	—	81,333
Share-based payments (note 9)	—	—	—	307	—	307
Balance at December 31, 2021[1]	**43,809**	**$ 85,474**	**$ 2,000**	**$ 307**	**$ 7,702**	**$ 95,483**

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

See accompanying notes to the financial statements.

RUBELLITE ENERGY INC.
Statements of Cash Flows

(Cdn$ thousands)		**December 31, 2022**		December 31, 2021[1]
Cash flows from operating activities				
Net income	**$**	**24,605**	$	7,702
Adjustments to add (deduct) non-cash items:				
Depletion (note 5)		**13,462**		1,389
Share-based payments (note 9)		**1,724**		307
Gain related to deferred tax on acquisition (note 4)		**—**		(9,146)
Deferred tax recovery (note 12)		**(14,797)**		—
Unrealized (gain) loss on risk management contracts		**(2,025)**		1,337
Finance - accretion on decommissioning obligations (note 13)		**67**		6
Change in non-cash working capital (note 14)		**834**		(480)
Net cash flows from operating activities		**23,870**		1,115
Cash flows from financing activities				
Common shares issued		**38,744**		83,470
Share issue costs		**(1,685)**		(2,137)
Change in revolving bank debt, net of issue costs		**12,000**		
Net cash flows from financing activities		**49,059**		81,333
Cash flows used in investing activities				
Property, plant and equipment expenditures (note 5)		**(67,626)**		(15,811)
Exploration and evaluation expenditures (note 6)		**(26,581)**		(1,547)
Cash from acquisitions (note 4)		**—**		(55,322)
Change in non-cash working capital (note 14)		**7,941**		5,519
Net cash flows used in investing activities		**(86,266)**		(67,161)
Change in cash and cash equivalents		**(13,337)**		15,287
Cash and cash equivalents, beginning of year		**15,287**		—
Cash and cash equivalents, end of year	**$**	**1,950**	$	15,287

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

See accompanying notes to the financial statements.

1. REPORTING ENTITY

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

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

The financial statements of the Company as at December 31, 2022 are comprised of the accounts of Rubellite. The comparative information presented herein 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 ("the Arrangement") involving Perpetual Energy Inc. ("Perpetual"), the shareholders of Perpetual and Rubellite, to December 31, 2021.

Material transactions

On March 30, 2022, the Company closed a public offering 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.

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

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

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

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

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

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

2. BASIS OF PREPARATION

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

These consolidated financial statements of the Company were approved and authorized for issue by the Board of Directors on March 9, 2023.

a) Basis of Measurement

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

b) Critical accounting judgements 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.

c) Critical accounting judgements

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 development and production assets 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 development and production 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 development and production assets.

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 future taxable profits will be sufficient to utilize the underlying deductible temporary differences and unused tax losses associated with the deferred tax asset. 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. The determination of probable future taxable profits involves significant estimates, including proved and probable oil and gas reserves. 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 to deplete its development and production assets included in PP&E, to assess for indicators of impairment on the Company's CGU and if any such indicators exist, to perform an impairment test to estimate the recoverable amount of the CGU, to assess E&E costs for impairment when transferred to PP&E and to determine if it is probable that future taxable profits will be sufficient to utilize the underlying deductible temporary differences and unused tax losses associated with the deferred tax asset. Estimates of proved and probable oil and gas reserves and their related cash flows are based upon a number of significant assumptions, such as forecasted production, oil and gas commodity prices, operating costs, royalty costs, and future development costs. Additional estimates are made in relation to the marketability of oil and gas, and the assumed effects of regulation by government agencies. The geological, economic and technical factors used to estimate reserves may change from period to period. Changes in the reported reserves could have a material impact on the carrying values of the Company's development and production assets, 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 development and production assets. This evaluation of proved and proved plus

probable oil and gas reserves is prepared in accordance with the reserve definitions contained in National Instrument 51-101 and the COGE Handbook.

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

ii) Business combinations

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

iii) Provisions for decommissioning obligations

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

iv) Derivative financial instruments

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

v) Share-based payments

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Business combinations

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

b) Financial instruments

Financial instruments comprise cash and cash equivalents, accounts receivable, deposits, accounts payable and accrued liabilities, fair value of derivative assets and liabilities and revolving bank debt. These financial instruments are recognized initially at fair value, net of any directly attributable transaction costs.

i) Classification and measurement of financial assets

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

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

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

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

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

a) Financial assets at FVTPL

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

b) Financial assets at amortized cost

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

ii) Classification and measurement of financial liabilities

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

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

iii) Share capital and warrants

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

iv) Derivative assets and liabilities

The Company has entered into certain financial derivative contracts to manage the exposure to market risks from fluctuations in commodity prices. The Company has not designated its financial derivative contracts as effective accounting hedges, and thus has not applied hedge accounting. All financial derivative contracts are designated as FVTPL and recorded as derivatives on the statement of financial position at fair value. Changes in the fair value of the derivatives are recognized in net income.

c) Jointly owned assets

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

d) Inventory

Product inventory consists of the Company's unsold crude oil and is valued at the lower of cost or net realizable value. The cost of crude oil is determined on a first-in first-out basis. Costs include the direct and indirect expenditures incurred in the normal course of business to bring the product to its existing condition and location. Net realizable value is the estimated selling price less applicable expenditures required to sell the product. If the carrying value exceeds the net realizable value, a write down is recognized. Write-downs may be reversed in a subsequent period if the inventory is still on hand and the circumstances which caused the write-down no longer exist.

e) Property, plant and equipment (“PP&E”)

i) Development and production costs

Items of property, plant and equipment, which include 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 development and production assets, 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 development and production assets, 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 Company depletes its net carrying value of development and production assets 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, taking into account estimated forecasted future development costs necessary to bring those reserves into production. The forecasted future development cost estimates are reviewed by independent third-party reserve evaluators at least annually.

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

f) 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 development and production assets, 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, drilling, completions and other facility expenditures. 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.

g) Impairment

i) Financial assets

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

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

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

ii) Non-financial assets

The carrying amounts of the Company's property, plant and equipment, which includes development and production 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 development and production assets is generally determined as the net present value of estimated future cash flows expected to arise from the continued use of the CGU and its eventual disposition, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU. In determining VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. VIU is generally the future cash flows expected to be derived from production of proved and probable oil and gas reserves estimated by the Company's independent third-party reserve evaluators.

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

E&E assets are assessed for impairment within the related CGU at the time that any triggering facts and circumstances suggest that the carrying amount exceeds the estimated recoverable amount as well as upon their eventual reclassification to development and production assets 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.

h) Share-based payments

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

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

i) 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.

j) 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.

k) 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 sufficient to utilize the underlying deductible temporary differences and unused tax losses associated with the deferred tax asset. The determination of probable future taxable profits involves significant estimates, including proved and probable oil and gas reserves. 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.

l) Income or loss per share amounts

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

Diluted income per share is calculated giving effect to the potential dilution that would occur if outstanding warrants, share options, restricted share units or performance share units were exercised or converted into common shares. The weighted average number of diluted shares is calculated in accordance with the treasury stock method for warrants, share options, restricted share units and performance share units. 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.

m) Changing Regulation

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

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

On September 3, 2021, the effective date of the completion of the Arrangement, Rubellite became a standalone public entity and began trading on the Toronto Stock Exchange on September 9, 2021. The Clearwater Assets were acquired for aggregate consideration of $65.5 million. The consideration consisted of promissory notes 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 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.

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

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

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

(1) Promissory notes owed to Perpetual, secured by certain Clearwater properties, and due on demand, which were settled in cash on October 5, 2021.
(2) Promissory notes assumed by Rubellite from Perpetual and owing to 1974918 Alberta Ltd. ("197Co"), a company controlled by Perpetual's President and Chief Executive Officer. These promissory notes are secured by certain Clearwater properties, and due on demand, and were settled in cash on October 5, 2021.
(3) Rubellite issued to Perpetual 680,485 Rubellite Shares valued at $1.4 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.

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 1.7%.

5. PROPERTY, PLANT AND EQUIPMENT

		Development and Production Assets
Cost		
Acquisitions (note 4)	$	56,489
Change in decommissioning obligations related to PP&E (note 7)		1,750
Additions		15,811
December 31, 2021	$	74,050
Additions		**67,626**
Transfer from exploration and evaluation (note 6)		**7,943**
Change in decommissioning obligations related to PP&E (note 7)		**1,690**
December 31, 2022	**$**	**151,309**
Accumulated depletion		
Depletion	$	(1,389)
December 31, 2021	$	(1,389)
Depletion[1]		**(13,971)**
December 31, 2022	**$**	**(15,360)**
Carrying amount		
December 31, 2021	$	72,661
December 31, 2022	**$**	**135,949**

(1) During the year ended December 31, 2022, depletion includes $0.5 million which has been capitalized to inventory in accordance with the Company's inventory policy (December 31, 2021 - nil).

As at December 31, 2022, forecasted future development costs of $105.6 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 $0.8 million (December 31, 2021 – $0.4 million) of salvage value for production equipment was excluded. Depletion expense was $14.0 million (December 31, 2021 - $1.4 million) on development and production assets for the year ended December 31, 2022.

a) Cash-generating units and impairment

There were no indicators of impairment for the Company's cash-generating unit ("CGU") as at December 31, 2022 and 2021. The Company transferred $7.9 million of E&E to PP&E during 2022 and performed an impairment test to estimate the recoverable amount of the CGU. It was determined that the recoverable amount of the CGU exceeds its carrying value, resulting in no impairment.

6. EXPLORATION AND EVALUATION

	December 31, 2022	December 31, 2021
Balance, beginning of year	**$ 11,614**	$ —
Acquisitions (note 4)	**—**	10,067
Additions	**26,581**	1,547
Transfer to property, plant, and equipment (note 5)	**(7,943)**	—
Balance, end of year	**$ 30,252**	$ 11,614

During the year ended December 31, 2022, $0.1 million in costs were charged directly to E&E expense in the statement of income and other comprehensive income.

Impairment of E&E assets

E&E assets are tested for impairment when internal or external indicators of impairment exist as well as upon reclassification to oil and natural gas interests in PP&E.

The Company transferred $7.9 million of E&E to PP&E during 2022 and performed the required impairment test to estimate the recoverable amount of the CGU. It was determined that the recoverable amount of the CGU exceeded its carrying value, resulting in no impairment.

At December 31, 2021 and 2022, the Company conducted an assessment of indicators of impairment for the Company's E&E assets. In performing the assessment, management determined there were no indicators of impairment.

7. DECOMMISSIONING OBLIGATIONS

The following table summarizes changes in decommissioning obligations:

	December 31, 2022	December 31, 2021
Balance, beginning of year	**$ 1,976**	$ —
Obligations incurred	**2,661**	894
Obligations acquired (note 4)	**—**	220
Change in rate on acquisition	**—**	496
Revisions to estimates	**(971)**	360
Accretion	**67**	6
Total decommissioning obligations	**$ 3,733**	$ 1,976

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

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

The change in rate on acquisition reflects the impact of discounting the decommissioning obligation at the credit adjusted discount rate of 7.0% 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:

	December 31, 2022	December 31, 2021
Undiscounted obligations	**$ 4,859**	$ 1,913
Average risk-free rate	**3.3%**	1.7%
Inflation rate	**2.1%**	1.8%
Expected timing of settling obligations	**25 years**	25 years

8. SHARE CAPITAL

a) Authorized

Authorized capital consists of an unlimited number of common shares.

b) Issued and outstanding

	December 31, 2022		December 31, 2021	
	Shares *(thousands)*	**Amount *($thousands)***	Shares *(thousands)*	Amount *($thousands)*
Balance, beginning of year	**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 public offering	**7,130**	**25,312**	—	—
Issued pursuant to share-based plans	**103**	**226**	—	—
Share issue costs[1]	—	**(1,061)**	—	(2,137)
Balance, end of year	**54,826**	**$ 123,383**	43,809	$ 85,474

(1) Share issue costs for the year ended December 31, 2022 are net of $0.6 million of deferred tax (2021 - nil).

As of December 31, 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 public offering 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 4, 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

(thousands, except per share amounts)	**December 31, 2022**	December 31, 2021
Net income	**$ 24,605**	$ 7,702
Weighted average common shares outstanding – basic	**52,093**	22,702
Weighted average common shares outstanding – diluted	**52,471**	23,228
Net income per share – basic	**$ 0.47**	$ 0.34
Net income per share – diluted	**$ 0.47**	$ 0.33

Per share amounts have been calculated using the weighted average number of common shares outstanding. For the period ended December 31, 2022, 5.9 million 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.

9. SHARE-BASED PAYMENTS

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

Compensation awards

(thousands)		**Share options**		**Performance share units**		**Restricted share units**		**Total**
Granted		757		185		203		1,145
December 31, 2021		757		185		203		1,145
Granted		927		163		285		1,375
Exercised		—		—		(104)		(104)
Cancelled		(14)		—		(13)		(27)
December 31, 2022	**$**	**1,670**	**$**	**348**	**$**	**371**	**$**	**2,389**

During the year ended December 31, 2022, the Company granted 1.4 million share-based payment awards, comprised of share options, performance share units and restricted share units.

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

		December 31, 2022		December 31, 2021
Share options	**$**	**659**	$	126
Restricted share units		**484**		64
Performance share units		**581**		117
Share-based payment expense	**$**	**1,724**	$	307

a) Share options

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

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

		December 31, 2022		December 31, 2021
Dividend yield (%)		—		—
Forfeiture rate (%)		**5.00**		5.00
Expected volatility (%)		**72.50**		60.00
Risk-free interest rate (%)		**3.16**		1.12
Contractual life (years)		**5.0**		5.0
Weighted average share price at grant date	**$**	**2.97**	$	2.02
Weighted average fair value at grant date	**$**	**1.88**	$	1.04

b) Performance share units

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

The fair value of a performance share units award is determined at the date of grant by using the closing price of common shares multiplied by the estimated performance multiplier. As at December 31, 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 year ended December 31, 2022 was $4.00 per award.

c) Restricted share units

The Company has a restricted share unit plan for any director, officer, employee or consultant. The restricted share units vest evenly over a two year period after the date upon which the restricted share units were granted. The restricted share units that vest can be settled in cash or in common shares, at the discretion 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 year ended December 31, 2022 was $3.06 per award.

10. 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 25th day of the month following production. Included in accounts receivable at December 31, 2022 is $3.9 million of oil revenue related to December 2022 production (December 31, 2021 - $1.6 million of oil revenue related to December 2021 production).

11. REVOLVING BANK DEBT

During the year ended December 31, 2022, the Company's first lien Credit Facility was increased from $3.0 million to $40.0 million, with an initial term to May 31, 2023 and 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 May 31, 2023.

As at December 31, 2022, $12.0 million (December 31, 2021 - nil) was drawn against the Credit Facility. Borrowings under the Credit Facility bear interest at its lenders' prime rate or Bankers Acceptance rates, plus applicable margins and standby fees. The applicable Banker's Acceptance margins range between 3.0% and 5.5%. The effective interest rate on the Credit Facility at December 31, 2022 was 7.5%. For the year ended December 31, 2022, if interest rates changed by 1% with all other variables held constant, the impact on annual cash finance expense and net income would be $0.1 million.

The Credit Facility is secured by general first lien security agreements covering all present and future property of the Company.

At December 31, 2022, the Credit Facility was not subject to any financial covenants and the Company was in compliance with all customary non-financial covenants.

12. DEFERRED TAXES

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

	December 31, 2022	December 31, 2021
Income before income tax	**9,808**	$ 7,702
Combined federal and provincial tax rate	**23%**	23%
Computed income tax expense	**2,256**	1,771
Increase (decrease) in income taxes resulting from:		
Non-deductible expenses	**398**	71
Income earned prior to Plan of Arrangement	**—**	149
Gain related to deferred tax on acquisition	**—**	(2,103)
Other	**(86)**	(460)
Change in unrecognized deferred tax assets	**(17,365)**	572
Deferred tax (recovery)	**(14,797)**	—

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

	December 31, 2022	December 31, 2021
Assets (liabilities):		
Property, plant and equipment	**13,503**	6,399
Decommissioning obligations	**859**	454
Fair value of derivatives	**(158)**	307
Share purchase warrants	**460**	460
Share and debt issue costs	**(148)**	46
Non-capital losses	**10,051**	1,480
Total deferred tax assets	**24,567**	9,146

The deductible temporary differences included in the Company's unrecognized deferred tax assets relate to resource tax pools and amount to $44.0 million at December 31, 2022 (December 31, 2021 - $122.0 million).

As at December 31, 2022, the Company had approximately $44.0 million (December 31, 2021 – $6.5 million) of non-capital losses available for future use. The unused non-capital losses expire between 2041 and 2042.

The development and production assets and facilities owned by the Company have an approximate tax basis of $265.7 million (December 31, 2021 – $234.4 million) available for future use as deductions from taxable income, as indicated below:

	December 31, 2022	December 31, 2021
Canadian oil & gas properties	**67,537**	57,144
Canadian development expense	**164,993**	136,320
Canadian exploration expense	**16,276**	25,077
Undepreciated capital cost	**16,851**	15,818
Total tax pools	**265,657**	234,359

Deferred tax assets have not been recognized in respect of certain resource pools included above, because it is not probable that future taxable income will be available against which the Company can utilize the benefits.

13. FINANCE EXPENSE (INCOME)

	December 31, 2022	December 31, 2021
Interest expense (income)	**$ 343**	$ (20)
Accretion (note 7)	**67**	6
Finance expense (income)	**$ 410**	$ (14)

14. SUPPLEMENTAL CASH FLOW INFORMATION

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

	December 31, 2022	December 31, 2021
Accounts receivable	**$ (1,677)**	$ (6,845)
Prepaid expenses and deposits	**(277)**	(247)
Inventory	**(320)**	—
Accounts payable and accrued liabilities	**11,049**	17,004
Working capital acquired (note 4)	**—**	(4,873)
	$ 8,775	$ 5,039
Related to operating activities	**834**	(480)
Related to investing activities	**7,941**	5,519
	$ 8,775	$ 5,039

15. FINANCIAL RISK MANAGEMENT

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

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

a) Credit risk

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

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

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

The combined carrying amount of cash and cash equivalents, accounts receivable and fair value of derivative assets at December 31, 2022 was $11.9 million (December 31, 2021 - $22.1 million), representing the Company's maximum credit exposure. The total amount of accounts receivable 90 days past due is nominal at December 31, 2022 (December 31, 2021 - nominal).

b) Liquidity risk

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

c) Market risk

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

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

As at December 31, 2022, the Company had the following crude oil and foreign exchange risk management contracts, with a short-term mark-to-market asset of $1.4 million and a short-term mark-to-market liability of $0.7 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). The realized and unrealized gain/(loss) recognized on the crude oil and foreign exchange risk management contracts for the year ended December 31, 2022 was $(13.1) million and $2.0 million, respectively (December 31, 2021 - realized and unrealized gain/(loss) of $0.1 million and $(1.3) million, respectively).

At December 31, 2022, the Company has entered into the following oil risk management contracts:

Remaining Period	Type of Contract	Sell/Buy	Quantity (*bbl/d*)	Pricing Point	Contract Price (*$/bbl*)	Mark-to-Market Asset (Liability) (*$000's*)
Jan 2023 – Dec 2023	Fixed Differential Swap	Sell	200	WCS - WTI Differential	CAD (17.75)	954
Jan 2023 – Dec 2023	Fixed Swap	Sell	100	WCS	USD 64.50	(700)
Jan 2023 – Dec 2023	Fixed Swap	Sell	100	WTI	USD 89.15	484

Subsequent to December 31, 2022 the Company has entered into the following oil risk management contracts:

Term	Type of Contract	Sell/Buy	Quantity (*bbl/d*)	Pricing Point	Contract Price (*$/bbl*)
Apr 2023 - Dec 2023	Fixed Differential Swap	Sell	250	WCS - WTI Differential	USD (17.40)
Apr 2023 - Dec 2023	Fixed Differential Swap	Sell	350	WCS - WTI Differential	USD (17.45)
Apr 2023 - Dec 2023	Fixed Differential Swap	Sell	250	WCS - WTI Differential	USD (17.60)
Apr 2023 - Jun 2023	Fixed Differential Swap	Sell	200	WCS - WTI Differential	CAD (20.65)
Apr 2023 - Jun 2023	Fixed Swap	Sell	200	WTI	CAD 107.90
Apr 2023 - Dec 2023	Fixed Swap	Sell	250	WTI	USD 76.20
Apr 2023 - Dec 2023	Fixed Swap	Sell	250	WTI	USD 76.50
Apr 2023 - Dec 2023	Fixed Swap	Sell	100	WTI	USD 77.60

As at December 31, 2022, if future WTI and WCS oil prices changed by $5.00 per bbl with all other variables held constant, net income for the year would change by $0.7 million due to changes in the fair value of risk management contracts.

At December 31, 2022, the Company has entered into the following CAD/USD foreign exchange swaps:

Remaining Period	Type of Contract	Type	Notional Amount	Strike Rate	Mark-to-Market Asset (Liability) (*$000's*)
Jan 2023 – Dec 2023	CAD/USD	Swap	500,000	1.3039	(286)
Jan 2023 – Dec 2023	CAD/USD	Swap	1,000,000	1.3710	215
Jan 2023 – Dec 2023	CAD/USD	Swap	250,000	1.3600	21

Subsequent to December 31, 2022 the Company has entered into the following foreign exchange swap:

Remaining Period	Type of Contract	Type	Notional Amount	Strike Rate
Apr 2023 – Dec 2023	CAD/USD	Swap	250,000	1.3700

As at December 31, 2022, if future CAD/USD exchange rate changed by $0.05 with all other variables held constant, net income for the period would change by $1.0 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 of December 31, 2022	Gross	Netting[(1)]	Carrying Amount	Fair value Level 1	Level 2	Level 3
Financial assets						
Fair value through profit and loss						
Risk management contracts	1,437	—	1,437	—	1,437	—
Financial liabilities						
Financial liabilities at amortized cost						
Revolving bank debt	(12,000)	—	(12,000)	(12,000)	—	—
Fair value through profit and loss						
Risk management contracts	(749)	—	(749)	—	(749)	—

(1) 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.

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

(1) 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.

d) Capital risk

The Company's policy is to maintain a strong but flexible capital structure so as to maintain investor, creditor and market confidence and to sustain its future development. The Company manages its capital structure and adjusts it in light of changes in economic conditions. The Company's capital structure consists of shareholders' equity and working capital. The Company also has access to its $40.0 million first lien Credit Facility with a syndicate of lenders, under which $30.0 million is available which is comprised of current borrowings of $12.0 million (December 31, 2021 - nil) and cash and cash equivalents of $2.0 million (December 31, 2021 - $15.3 million).

16. KEY MANAGEMENT PERSONNEL

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

	December 31, 2022	December 31, 2021
Short-term compensation	**$ 125**	$ 58
Share-based payments	**1,135**	103
Total	**$ 1,260**	$ 161

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

17. RELATED PARTIES

During the year ended December 31, 2022 Rubellite was billed by Perpetual for net transactions, which are considered to be normal course of oil and gas operations, totaling $5.6 million (December 31, 2021 - $1.4 million). Included within this amount are $1.9 million (December 31, 2021 - $0.4 million) of costs charged to Rubellite through the MSA. The Company recorded an accounts payable of $0.6 million owing to Perpetual as at December 31, 2022 (December 31, 2021 - accounts receivable of $3.9 million and accounts payable of $3.8 million owing from/to, respectively).

18. CONTRACTUAL OBLIGATIONS

As at December 31, 2022, the Company's minimum contractual obligations over the next five years and thereafter, excluding estimated interest payments, are as follows:

	2023	2024	Thereafter	Total
Contractual obligations				
Accounts payable and accrued liabilities	28,053	—	—	**28,053**
Risk management contracts	749	—	—	**749**
Revolving bank debt	—	12,000	—	**12,000**
Total	**28,802**	**12,000**	**—**	**40,802**

DIRECTORS

Holly Benson
Independent Director(1)(2)(3)(4)
Tamara MacDonald
Independent Director(1)(2)(3)(4)
Susan L. Riddell Rose
President, Chief Executive Officer and Director
Ryan A. Shay
Vice President, Finance and Chief Financial Officer and Director
Bruce Shultz
Independent Director(1)(2)(3)(4)

(1) Member of Audit Committee
(2) Member of Reserves Committee
(3) Member of Compensation and Corporate Governance Committee
(4) Member of Environmental, Health & Safety Committee

OFFICERS

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President, Chief Executive Officer and Director
Ryan A. Shay
Vice President, Finance and Chief Financial Officer
Ryan M. Goosen
Vice President, Business Development and Land
Jeffrey R. Green
Vice President, Corporate and Engineering Services
Linda L. McKean
Vice President, Production and Development
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McDaniel & Associates Consultants Ltd.

REGISTRAR AND TRANSFER AGENT

Odyssey Trust Company