RUBELLITE ENERGY

CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

THREE MONTHS ENDED MARCH 31, 2023

RUBELLITE ENERGY INC.
Condensed Interim Statements of Financial Position

As at	March 31, 2023	December 31, 2022
(*Cdn$ thousands, unaudited*)		
Assets		
Current assets		
Cash and cash equivalents	**$ 7,463**	$ 1,950
Accounts receivable	**7,079**	8,522
Prepaid expenses and deposits	**450**	524
Product inventory	**783**	829
Risk management contracts (note 11)	**767**	1,437
	16,542	13,262
Property, plant and equipment (note 3)	**138,121**	135,949
Exploration and evaluation (note 4)	**44,210**	30,252
Deferred tax asset	**23,874**	24,567
Total assets	**$ 222,747**	$ 204,030
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 12)	**$ 20,695**	$ 28,053
Risk management contracts (note 11)	**514**	749
	21,209	28,802
Revolving bank debt (note 9)	**16,000**	12,000
Deferred premium on flow-through shares (note 6)	**1,540**	—
Decommissioning obligations (note 5)	**4,017**	3,733
Risk management contracts (note 11)	**17**	—
Total liabilities	**42,783**	44,535
Equity		
Share capital (note 6)	**141,560**	123,383
Share purchase warrants	**2,000**	2,000
Contributed surplus (note 7)	**2,398**	1,805
Retained earnings	**34,006**	32,307
Total equity	**179,964**	159,495
Total liabilities and equity	**$ 222,747**	$ 204,030

Commitments (note 6)
Subsequent event (note 9)

See accompanying notes to the condensed interim financial statements.

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

	Three months ended March 31,	
	2023	2022
(Cdn$ thousands, except per share amounts, unaudited)		
Revenue		
Oil (note 8)	**$ 17,104**	$ 10,876
Royalties	**(1,605)**	(1,118)
	15,499	9,758
Realized gain (loss) on risk management contracts (note 11)	**208**	(3,269)
Unrealized loss on risk management contracts (note 11)	**(451)**	(10,580)
	15,256	(4,091)
Expenses		
Production and operating	**1,641**	1,110
Transportation	**2,131**	653
General and administrative	**1,737**	717
Share based payments (note 7)	**595**	261
Exploration and evaluation (note 4)	**65**	—
Depletion (note 3)	**6,196**	2,258
	2,891	(9,090)
Finance expense (note 10)	**(482)**	(182)
Income (loss) before income tax	**2,409**	(9,272)
Taxes		
Deferred tax expense	**(710)**	—
Net income (loss) and comprehensive income (loss)	**$ 1,699**	$ (9,272)
Net income (loss) per share (note 6)		
Basic	**$ 0.03**	$ (0.21)
Diluted	**$ 0.03**	$ (0.21)

See accompanying notes to the condensed interim financial statements.

RUBELLITE ENERGY INC.
Condensed Interim 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, unaudited)						
Balance at December 31, 2022	54,826	$ 123,383	$ 2,000	$ 1,805	$ 32,307	$ 159,495
Net income	—	—	—	—	1,699	1,699
Flow-through shares issued, net of issue costs (note 6)	7,000	19,715	—	—	—	19,715
Deferred premium on flow-through shares (note 6)	—	(1,540)	—	—	—	(1,540)
Common shares issued, share-based payment plan (note 6)	—	2	—	(2)	—	—
Share-based payments (note 7)	—	—	—	595	—	595
Balance at March 31, 2023	**61,826**	**$ 141,560**	**$ 2,000**	**$ 2,398**	**$ 34,006**	**$179,964**

	Share Capital (thousands)	Share Capital ($thousands)	Share purchase warrants	Contributed surplus	Retained earnings (deficit)	Total Equity
(Cdn$ thousands, except share amounts)						
Balance at December 31, 2021	43,809	$ 85,474	$ 2,000	$ 307	$ 7,702	$ 95,483
Net loss	—	—	—	—	(9,272)	(9,272)
Common shares issued, net of issue costs (note 6)	10,914	37,159	—	—	—	37,159
Share-based payments (note 7)	—	—	—	261	—	261
Balance at March 31, 2022	**54,723**	**$ 122,633**	**$ 2,000**	**$ 568**	**$ (1,570)**	**$123,631**

See accompanying notes to the condensed interim financial statements.

RUBELLITE ENERGY INC.
Condensed Interim Statements of Cash Flows

	Three months ended March 31, 2023	2022
(*Cdn$ thousands, unaudited*)		
Cash flows from operating activities		
Net income (loss)	**$ 1,699**	$ (9,272)
Adjustments to add (deduct) non-cash items:		
Depletion (note 3)	**6,196**	2,258
Share-based payments (note 7)	**595**	261
Deferred tax expense	**710**	—
Unrealized loss on risk management contracts (note 11)	**451**	10,580
Finance - accretion on decommissioning obligations (note 5)	**31**	8
Change in non-cash working capital	**(397)**	(643)
Net cash flows from operating activities	**9,285**	3,192
Cash flows from financing activities		
Common shares issued (note 6)	**19,950**	38,744
Share issue costs (note 6)	**(252)**	(1,585)
Change in revolving bank debt (note 9)	**4,000**	—
Change in non-cash working capital	**252**	319
Net cash flows from financing activities	**23,950**	37,478
Cash flows used in investing activities		
Property, plant and equipment expenditures (note 3)	**(8,103)**	(21,774)
Exploration and evaluation expenditures (note 4)	**(13,958)**	(13,737)
Change in non-cash working capital	**(5,661)**	7,039
Net cash flows used in investing activities	**(27,722)**	(28,472)
Change in cash and cash equivalents	**5,513**	12,198
Cash and cash equivalents, beginning of year	**1,950**	15,287
Cash and cash equivalents, end of period	**$ 7,463**	$ 27,485

See accompanying notes to the condensed interim financial statements.

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

1. REPORTING ENTITY

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

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

The condensed interim financial statements of the Company as at and for the three months ended March 31, 2023 are comprised of the accounts of Rubellite.

2. BASIS OF PREPARATION

These condensed interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and do not include all of the information required for full annual financial statements. These condensed interim financial statements should be read in conjunction with the Company's financial statements as at and for the year ended December 31, 2022 which were prepared in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The accounting policies, basis of measurement, critical accounting judgements and significant estimates used to prepare the annual consolidated financial statements as at and for the year ended December 31, 2022 have been applied in the preparation of these condensed interim financial statements, except as noted in the condensed interim financial statements.

Flow-through shares

Flow-through shares permit an investor to claim deductions for tax purposes related to qualifying expenditures incurred by the issuer. The issuer renounces the right to claim the income tax deductions in favor of the investor. Proceeds from the issuance are presented net of directly attributable share issuance costs.

Proceeds from the issuance of flow-through shares are allocated between the offering of shares and the sale of tax benefits when the shares are offered. The allocation is made based on the difference between the quoted price of the existing shares and the amount the investor pays to acquire the flow-through shares, with a deferred liability being recognized for the difference. The liability is drawn down as the qualifying expenditures are incurred with a deferred tax liability recognized equal to the deferred tax payable. Any difference between the draw down of the deferred liability set up for the premium on the flow-through shares and the deferred tax effect on the expenditures is recognized in the statement of income (loss) and comprehensive income (loss).

These financial statements of the Company were approved and authorized for issue by the Board of Directors on May 11, 2023.

3. PROPERTY, PLANT AND EQUIPMENT

		Development and Production Assets
Cost		
December 31, 2021	$	74,050
Additions		67,626
Transfer from exploration and evaluation (note 4)		7,943
Change in decommissioning obligations related to PP&E (note 5)		1,690
December 31, 2022	$	151,309
Additions		**8,103**
Change in decommissioning obligations related to PP&E (note 5)		**253**
March 31, 2023	**$**	**159,665**
Accumulated depletion		
December 31, 2021	$	(1,389)
Depletion		(13,971)
December 31, 2022	$	(15,360)
Depletion(1)		(6,184)
March 31, 2023	**$**	**(21,544)**
Carrying amount		
December 31, 2022	$	135,949
March 31, 2023	**$**	**138,121**

(1) During the period ended March 31, 2023, depletion includes a nominal amount which has been capitalized to inventory in accordance with the Company's inventory policy (March 31, 2022 - nil).

As at March 31, 2023, forecasted future development costs of $98.2 million (December 31, 2022 – $105.6 million) associated with proved and probable oil and gas reserves were included in the depletion calculation and an estimated $0.9 million (December 31, 2022 – $0.8 million) of salvage value for production equipment was excluded. Depletion expense was $6.2 million (December 31, 2022 - $14.0 million) on development and production assets for the three months ended March 31, 2023.

a) Cash-generating units and impairment

There were no indicators of impairment relating to the Company's cash-generating unit ("CGU") as at March 31, 2023 and December 31, 2022.

The Company transferred $7.9 million of E&E to PP&E during 2022 and performed an impairment test at December 31, 2022 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.

4. EXPLORATION AND EVALUATION

		March 31, 2023		December 31, 2022
Balance, beginning of period	**$**	**30,252**	$	11,614
Additions		**13,958**		26,581
Transfer to property, plant, and equipment (note 3)		**—**		(7,943)
Balance, end of period	**$**	**44,210**	$	30,252

During the three month period ended March 31, 2023, $0.1 million (Q1 2022 - nil) in costs were charged directly to E&E expense in the statement of income (loss) and comprehensive income (loss).

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.

At March 31, 2023, 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.

During the three month period ended March 31, 2023 and 2022 there were no transfers from E&E to 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. In performing the assessment, management determined that there were no indicators of impairment.

5. DECOMMISSIONING OBLIGATIONS

The following table summarizes changes in decommissioning obligations:

		March 31, 2023		December 31, 2022
Balance, beginning of period	**$**	**3,733**	$	1,976
Obligations incurred		**369**		2,661
Revisions to estimates		**(116)**		(971)
Accretion		**31**		67
Total decommissioning obligations, end of period	**$**	**4,017**	$	3,733

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 (loss) and comprehensive income (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 following significant assumptions were used to estimate the Company’s decommissioning obligations:

		March 31, 2023		December 31, 2022
Undiscounted obligations	**$**	**5,405**	$	4,859
Average risk-free rate		**3.0%**		3.3%
Inflation rate		**1.7%**		2.1%
Expected timing of settling obligations		**25 years**		25 years

6. SHARE CAPITAL

a) Authorized

Authorized capital consists of an unlimited number of common shares.

b) Issued and outstanding

	March 31, 2023		December 31, 2022	
	Shares *(thousands)*	**Amount *($thousands)***	Shares *(thousands)*	Amount *($thousands)*
Balance, beginning of period	**54,826**	**$ 123,383**	43,809	$ 85,474
Flow-through shares issued pursuant to private placement	**7,000**	**19,950**	—	—
Deferred premium on flow-through shares	**—**	**(1,540)**	—	—
Issued pursuant to private placement	**—**	**—**	3,784	13,432
Issued pursuant to public offering	**—**	**—**	7,130	25,312
Issued pursuant to share-based plans	**—**	**2**	103	226
Share issue costs(1)	**—**	**(235)**	—	(1,061)
Balance, end of period	**61,826**	**$ 141,560**	54,826	$ 123,383

(1) Share issue costs for the three month period ended March 31, 2023 are net of a nominal amount (December 31, 2022 - $0.6 million) of deferred tax.

As of March 31, 2023 there were 4.0 million Rubellite common share purchase warrants exercisable at $3.00 per share which expire in July 2026.

On March 28, 2023 the Company issued 7.0 million flow-through shares at $2.85 per share, through a private placement for gross proceeds of $20.0 million. Certain directors and officers of the Company subscribed for $13.3 million of the flow-through shares issued. Rubellite incurred share issuance costs of $0.2 million, net of deferred taxes. A deferred liability of $1.5 million was recognized for the premium on the flow-through shares. The gross proceeds of the offering will be used to incur eligible qualified expenditures which the Company is committed to renounce to the purchasers of the flow-through shares by December 31, 2023.

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.

c) Per share information

	Three months ended March 31,	
(*thousands, except per share amounts*)	**2023**	2022
Net income (loss)	**$ 1,699**	$ (9,272)
Weighted average common shares outstanding – basic	**55,060**	43,930
Weighted average common shares outstanding – diluted	**55,550**	43,930
Net income (loss) per share – basic	**$ 0.03**	$ (0.21)
Net income (loss) per share – diluted	**$ 0.03**	$ (0.21)

Per share amounts have been calculated using the weighted average number of common shares outstanding. For the period ended March 31, 2023, 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.

7. 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**
December 31, 2021	757	185	203	1,145
Granted	927	163	285	1,375
Exercised	—	—	(104)	(104)
Forfeited	(14)	—	(13)	(27)
December 31, 2022	1,670	348	371	2,389
Exercised	(2)	—	—	(2)
March 31, 2023	**1,668**	**348**	**371**	**2,387**

During the period ended March 31, 2023, the Company did not grant any share-based payment awards.

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

	Three months ended March 31,		
		2023	2022
Share options	**$**	**261**	$ 95
Restricted share units		**170**	73
Performance share units		**164**	93
Share-based payment expense	**$**	**595**	$ 261

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. During the three month period ended March 31, 2023 there were no issuances of share options.

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 March 31, 2023, 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. There were no issuances of performance share units during the three month period ended March 31, 2023.

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. There were no issuances of restricted share units during the three month period ended March 31, 2023.

8. OIL REVENUE

The Company sells its heavy crude oil 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 March 31, 2023 is $6.0 million of oil revenue related to March 2023 production (December 31, 2022 - $3.9 million of oil revenue related to December 2022 production).

9. REVOLVING BANK DEBT

As at March 31, 2023, the Company's first lien Credit Facility had a Borrowing Limit of $40.0 million (December 31, 2022 - $40.0 million). Subsequent to the end of the quarter, the Company's first lien credit facility remained at $40.0 million and was extended with an initial term to May 31, 2024 and may be extended for a further twelve months to May 31, 2025 subject to lender approval. If not extended by May 31, 2024, all outstanding advances would be repayable on May 31, 2025. The next semi-annual borrowing base redetermination is scheduled on or before November 30, 2023.

As at March 31, 2023, $16.0 million (December 31, 2022 - $12.0 million) 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 March 31, 2023 was 7.7% per annum. For the three month period ended March 31, 2023, if interest rates changed by 1% with all other variables held constant, the impact on annual cash finance expense and net income would be $0.2 million.

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

At March 31, 2023, the Credit Facility was not subject to any financial covenants and the Company was in compliance with all customary non-financial covenants.

10. FINANCE EXPENSE

	Three months ended March 31, 2023	2022
Interest expense	**$ 451**	$ 174
Accretion (note 5)	**31**	8
Finance expense	**$ 482**	$ 182

11. FINANCIAL RISK MANAGEMENT

The following table summarizes the mark to market value of outstanding risk management contracts:

	March 31, 2023	December 31, 2022
Financial oil contracts	**166**	738
Financial foreign exchange contracts	**70**	(50)
Risk management contracts	**$ 236**	$ 688
Risk management contracts – current asset	**767**	1,437
Risk management contracts – current liability	**(514)**	(749)
Risk management contracts – non-current liability	**(17)**	—
Risk management contracts	**$ 236**	$ 688

The following table details the gains (losses) on risk management contracts:

	Three months ended March 31, 2023	2022
Unrealized loss on oil contracts	**$ (571)**	$ (10,580)
Unrealized gain on foreign exchange contracts	**120**	—
Unrealized loss on financial derivatives	**(451)**	(10,580)
Realized gain (loss) on oil contracts	**217**	(3,269)
Realized loss on foreign exchange contracts	**(9)**	—
Realized gain (loss) on financial derivatives	**208**	(3,269)
Change in fair value of derivatives	**$ (243)**	$ (13,849)

At March 31, 2023, the Company had 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*)**
Apr 2023 – Jun 2023	Fixed Swap	Sell	200	WTI	CAD 107.90	100
Apr 2023 – Dec 2023	Fixed Swap	Sell	100	WTI	USD 89.15	525
Apr 2023 – Dec 2023	Fixed Swap	Sell	600	WTI	USD 76.56	416
Apr 2023 – Dec 2023	Fixed Swap	Sell	100	WTI	USD 64.50	(318)
Apr 2023 - June 2023	Fixed Differential Swap	Sell	200	WCS - WTI Differential	CAD (20.65)	(4)
Apr 2023 – Dec 2023	Fixed Differential Swap	Sell	200	WCS - WTI Differential	CAD (17.75)	172
Apr 2023 - Dec 2023	Fixed Differential Swap	Sell	250	WCS - WTI Differential	USD (17.40)	(167)
Apr 2023 - Dec 2023	Fixed Differential Swap	Sell	350	WCS - WTI Differential	USD (17.45)	(242)
Apr 2023 - Dec 2023	Fixed Differential Swap	Sell	250	WCS - WTI Differential	USD (17.60)	(183)
May 2023 - Jun 2023	Fixed Differential Swap	Sell	250	WCS - WTI Differential	USD (16.25)	(32)
Jul 2023 - Sep 2023	Fixed Differential Swap	Sell	250	WCS - WTI Differential	USD (15.50)	(25)
Jul 2023 - Sep 2023	Fixed Differential Swap	Sell	200	WCS - WTI Differential	USD (16.50)	(44)
Oct 2023 - Dec 2023	Fixed Differential Swap	Sell	250	WCS - WTI Differential	USD (16.75)	(10)
Jan 2024 - Dec 2024	Fixed Differential Swap	Sell	250	WCS - WTI Differential	USD (17.50)	(22)

Subsequent to March 31, 2023 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*)
May 2023 - Jun 2023	Fixed Swap	Sell	200	WTI	USD 82.40
May 2023 - Dec 2023	Fixed Swap	Sell	300	WTI	USD 78.95
Jan 2024 - Dec 2024	Fixed Differential Swap	Sell	250	WCS - WTI Differential	USD (14.65)

As at March 31, 2023, 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 $1.2 million due to changes in the fair value of risk management contracts.

At March 31, 2023, 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*)
Apr 2023 – Dec 2023	CAD/USD	Swap	500,000	1.3039	(199)
Apr 2023 – Dec 2023	CAD/USD	Swap	1,000,000	1.3710	197
Apr 2023 – Dec 2023	CAD/USD	Swap	250,000	1.3600	25
Apr 2023 - Dec 2023	CAD/USD	Swap	250,000	1.3700	47

As at March 31, 2023, 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 March 31, 2023	Gross	Netting[1]	Carrying Amount	Fair value Level 1	Fair value Level 2	Fair value Level 3
Financial assets						
Fair value through profit and loss						
Risk management contracts	1,282	(515)	767	—	767	—
Financial liabilities						
Financial liabilities at amortized cost						
Revolving bank debt	(16,000)	—	(16,000)	(16,000)	—	—
Fair value through profit and loss						
Risk management contracts	(1,046)	515	(531)	—	(531)	—

(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.

12. RELATED PARTIES

Rubellite and Perpetual are considered related parties due to the existence of the management and operating services agreement ("MSA"). Further, certain officers and directors are key management of and have significant influence over Rubellite while also being key management of and having deemed control over Perpetual. During the three month period ended March 31, 2023 Rubellite was billed by Perpetual for net transactions, which are considered to be normal course of oil and gas operations, totaling $1.6 million (three month period ended March 31, 2022 - $1.3 million). Included within this amount are $0.8 million (three month period ended March 31, 2022 - $0.3 million) of costs charged to Rubellite through the MSA. The Company recorded accounts payable of $0.6 million owing to Perpetual as at March 31, 2023 (December 31, 2022 - accounts payable of $0.6 million).