RUBELLITE ENERGY

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023

RUBELLITE ENERGY INC.
Condensed Interim Consolidated Statements of Financial Position

As at	September 30, 2023	December 31, 2022
(Cdn$ thousands, unaudited)		
Assets		
Current assets		
Cash and cash equivalents	**$ —**	$ 1,950
Accounts receivable	**9,900**	8,522
Prepaid expenses and deposits	**759**	524
Product inventory	**868**	829
Risk management contracts (note 12)	**147**	1,437
	11,674	13,262
Property, plant and equipment (note 3)	**155,042**	135,949
Exploration and evaluation (note 4)	**30,284**	30,252
Deferred tax asset (note 10)	**26,326**	24,567
Risk management contracts (note 12)	**27**	—
Total assets	**$ 223,353**	$ 204,030
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 13)	**$ 18,532**	$ 28,053
Risk management contracts (note 12)	**2,470**	749
	21,002	28,802
Revolving bank debt (note 9)	**9,450**	12,000
Deferred premium on flow-through shares (note 6)	**108**	—
Decommissioning obligations (note 5)	**3,861**	3,733
Risk management contracts (note 12)	**372**	—
Total liabilities	**34,793**	44,535
Equity		
Share capital (note 6)	**142,780**	123,383
Share purchase warrants	**2,000**	2,000
Contributed surplus (note 7)	**2,435**	1,805
Retained earnings	**41,345**	32,307
Total equity	**188,560**	159,495
Total liabilities and equity	**$ 223,353**	$ 204,030

Commitments (note 6)
Subsequent events (note 12, 14)

See accompanying notes to the condensed interim consolidated financial statements.

RUBELLITE ENERGY INC.
Condensed Interim Consolidated Statements of Income and Comprehensive Income

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	**2023**	2022
(Cdn$ thousands, except per share amounts, unaudited)				
Revenue				
Oil (note 8)	**$ 25,777**	$ 13,654	**$ 61,744**	$ 40,162
Royalties	**(2,389)**	(1,383)	**(5,648)**	(4,323)
	23,388	12,271	**56,096**	35,839
Realized loss on risk management contracts (note 12)	**(1,944)**	(2,994)	**(1,018)**	(12,466)
Unrealized gain (loss) on risk management contracts (note 12)	**(3,209)**	7,941	**(3,356)**	1,008
	18,235	17,218	**51,722**	24,381
Expenses				
Production and operating	**1,670**	716	**5,180**	3,173
Transportation	**2,284**	1,207	**6,457**	2,758
General and administrative	**1,634**	908	**4,995**	2,380
Share based payments (note 7)	**777**	510	**1,946**	1,121
Exploration and evaluation (note 4)	**7**	15	**6,915**	42
Depletion (note 3)	**6,948**	3,443	**19,290**	8,855
	4,915	10,419	**6,939**	6,052
Finance income (expense) (note 11)	**(324)**	7	**(1,184)**	(172)
Income before income tax	**4,591**	10,426	**5,755**	5,880
Taxes				
Deferred tax recovery (expense) (note 10)	**(649)**	—	**3,283**	—
Net income and comprehensive income	**$ 3,942**	$ 10,426	**$ 9,038**	$ 5,880
Net income per share (note 6)				
Basic	**$ 0.06**	$ 0.19	**$ 0.15**	$ 0.11
Diluted	**$ 0.06**	$ 0.19	**$ 0.15**	$ 0.11

See accompanying notes to the condensed interim consolidated financial statements.

RUBELLITE ENERGY INC.
Condensed Interim Consolidated 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	—	—	—	—	9,038	9,038
Flow-through shares issued, net of issue costs (note 6)	7,000	19,621	—	—	—	19,621
Deferred premium on flow-through shares (note 6)	—	(1,540)	—	—	—	(1,540)
Common shares issued, share-based payment plan (note 6)	587	1,316	—	(1,316)	—	—
Share-based payments (note 7)	—	—	—	1,946	—	1,946
Balance at September 30, 2023	**62,413**	**$ 142,780**	**$ 2,000**	**$ 2,435**	**$ 41,345**	**$188,560**

	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	—	—	—	—	5,880	5,880
Common shares issued, net of issue costs (note 6)	10,914	37,063	—	—	—	37,063
Share-based payments (note 7)	93	189	—	928	—	1,117
Balance at September 30, 2022	**54,816**	**$ 122,726**	**$ 2,000**	**$ 1,235**	**$ 13,582**	**$139,543**

See accompanying notes to the condensed interim consolidated financial statements.

RUBELLITE ENERGY INC.
Condensed Interim Consolidated Statements of Cash Flows

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	**2023**	2022
(*Cdn$ thousands, unaudited*)				
Cash flows from (used in) operating activities				
Net income	**$ 3,942**	$ 10,426	**$ 9,038**	$ 5,880
Adjustments to add (deduct) non-cash items:				
Depletion (note 3)	**6,948**	3,443	**19,290**	8,855
Share-based payments (note 7)	**777**	510	**1,946**	1,121
Deferred tax recovery (expense) (note 10)	**649**	—	**(3,283)**	—
Unrealized gain (loss) on risk management contracts (note 12)	**3,209**	(7,941)	**3,356**	(1,008)
Finance - accretion on decommissioning obligations (note 5)	**32**	21	**92**	43
Exploration and evaluation expense (note 4)	**(3)**	—	**6,795**	—
Decommissioning obligations settled (note 5)	**(3)**	—	**(3)**	—
Change in non-cash working capital	**(594)**	(7,204)	**(803)**	(5,971)
Net cash flows from (used in) operating activities	**14,957**	(745)	**36,428**	8,920
Cash flows from (used in) financing activities				
Common shares issued (note 6)	**—**	—	**19,950**	38,744
Share issue costs (note 6)	**—**	(4)	**(237)**	(1,685)
Change in revolving bank debt (note 9)	**(2,828)**	—	**(2,550)**	—
Change in non-cash working capital	**—**	(90)	**—**	—
Net cash flows from (used in) financing activities	**(2,828)**	(94)	**17,163**	37,059
Cash flows used in investing activities				
Property, plant and equipment expenditures (note 3)	**(11,177)**	(17,902)	**(30,429)**	(48,188)
Exploration and evaluation expenditures (note 4)	**(153)**	(4,574)	**(14,782)**	(22,504)
Change in non-cash working capital	**(799)**	13,412	**(10,330)**	15,648
Net cash flows used in investing activities	**(12,129)**	(9,064)	**(55,541)**	(55,044)
Change in cash and cash equivalents	**—**	(9,903)	**(1,950)**	(9,065)
Cash and cash equivalents, beginning of period	**—**	16,125	**1,950**	15,287
Cash and cash equivalents, end of period	**$ —**	$ 6,222	**$ —**	$ 6,222

See accompanying notes to the condensed interim consolidated 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 condensed interim consolidated financial statements of the Company as at and for the three and nine months ended September 30, 2023 are comprised of the accounts of Rubellite Energy Inc. and its wholly owned subsidiaries: Ukalta LP Inc., Ukalta GP Inc., and Ukalta Limited Partnership.

2. BASIS OF PREPARATION

These condensed interim consolidated 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 consolidated 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 consolidated financial statements, except as noted in the condensed interim consolidated financial statements.

a) 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).

b) Consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable are considered. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases

(ii) 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 consolidated financial statements include the Company's proportionate share of these jointly owned assets, liabilities, revenues and expenses.

(iii) Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

These financial statements of the Company were approved and authorized for issue by the Board of Directors on November 9, 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		**30,429**
Transfer from exploration and evaluation (note 4)		**7,955**
Change in decommissioning obligations related to PP&E (note 5)		**39**
September 30, 2023	**$**	**189,732**
Accumulated depletion		
December 31, 2021	$	(1,389)
Depletion		(13,971)
December 31, 2022	$	(15,360)
Depletion(1)		**(19,330)**
September 30, 2023	**$**	**(34,690)**
Carrying amount		
December 31, 2022	$	135,949
September 30, 2023	**$**	**155,042**

(1) During the period ended September 30, 2023, depletion includes a nominal amount which has been capitalized to inventory (September 30, 2022 - $0.4 million).

As at September 30, 2023, forecasted future development costs of $85.9 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 $1.0 million (December 31, 2022 – $0.8 million) of salvage value for production equipment was excluded. Depletion expense was $19.3 million (December 31, 2022 - $14.0 million) on development and production assets for the nine months ended September 30, 2023.

a) Impairment

There were no indicators of impairment related to the Company's cash-generating unit ("CGU") as at September 30, 2023 and December 31, 2022.

The Company transferred $8.0 million of E&E to PP&E during 2023 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.

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.

4. EXPLORATION AND EVALUATION

		September 30, 2023		December 31, 2022
Balance, beginning of period	**$**	**30,252**	$	11,614
Additions		**14,782**		26,581
Transfer to property, plant, and equipment (note 3)		**(7,955)**		(7,943)
Exploration and evaluation expense		**(6,795)**		—
Balance, end of period	**$**	**30,284**	$	30,252

During the three and nine month period ended September 30, 2023, a nominal amount and $6.9 million, respectively, was charged to E&E expense in the statement of income and comprehensive income. This includes $6.8 million related to exploration drilling on four (4.0 net) wells that were previously recorded as E&E as well as $0.1 million of costs charged directly to E&E expense (three and nine month period ended September 30, 2022 - nominal amount).

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 September 30, 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.

5. DECOMMISSIONING OBLIGATIONS

The following table summarizes changes in decommissioning obligations:

	September 30, 2023	December 31, 2022
Balance, beginning of period	**$ 3,733**	$ 1,976
Liabilities settled	**(3)**	—
Obligations incurred	**874**	2,661
Revisions to estimates	**(835)**	(971)
Accretion	**92**	67
Total decommissioning obligations, end of period	**$ 3,861**	$ 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 and comprehensive income. 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:

	September 30, 2023	December 31, 2022
Undiscounted obligations	**$ 5,689**	$ 4,859
Average risk-free rate	**3.8%**	3.3%
Inflation rate	**1.8%**	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

	September 30, 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	**587**	**1,316**	103	226
Share issue costs(1)	**—**	**(329)**	—	(1,061)
Balance, end of period	**62,413**	**$ 142,780**	54,826	$ 123,383

(1) Share issue costs for the nine month period ended September 30, 2023 are net of $0.1 million of deferred tax (December 31, 2022 - $0.6 million).

As of September 30, 2023, there were 4.0 million Rubellite common share purchase warrants exercisable at $3.00 per share which expire in September 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 $0.3 million, net of deferred taxes. A deferred liability of $1.5 million was initially recognized for the premium on the flow-through shares, of which $1.4 million has been realized and included in the deferred tax recovery, leaving a remaining liability of $0.1 million as at September 30, 2023. 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. As of September 30, 2023, the Company has spent $18.5 million of eligible qualifying expenditures, leaving a remaining commitment of $1.5 million of expenditures required to be spent on or before 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

(*thousands, except per share amounts*)	Three months ended September 30, **2023**	2022	Nine months ended September 30, **2023**	2022
Net income	**$ 3,942**	$ 10,426	**$ 9,038**	5,880
Weighted average common shares outstanding – basic	**61,956**	54,748	**59,640**	51,173
Weighted average common shares outstanding – diluted	**62,597**	55,265	**60,325**	51,690
Net income per share – basic	**$ 0.06**	$ 0.19	**$ 0.15**	$ 0.11
Net income per share – diluted	**$ 0.06**	$ 0.19	**$ 0.15**	$ 0.11

Per share amounts have been calculated using the weighted average number of common shares outstanding. For both the three and nine month periods ended September 30, 2023, 7.1 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
Granted	1,081	486	406	1,973
Exercised	(8)	(370)	(212)	(590)
Forfeited	—	—	(2)	(2)
September 30, 2023	**2,743**	**464**	**563**	**3,770**

During the nine month period ended September 30, 2023, the Company granted 2.0 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:

	Three months ended September 30, **2023**	2022	Nine months ended September 30, **2023**	2022
Share options	**$ 307**	$ 199	**$ 834**	$ 394
Restricted share units	**261**	142	**567**	312
Performance share units	**209**	169	**545**	415
Share-based payment expense	**$ 777**	$ 510	**$ 1,946**	$ 1,121

a) Share options

Rubellite's share option plan provides a long-term incentive to directors, executive officers, employees or consultants 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 grant date:

	September 30, 2023	December 31, 2022
Dividend yield (%)	**—**	—
Forfeiture rate (%)	**5.00**	5.00
Expected volatility (%)	**64.00**	72.50
Risk-free interest rate (%)	**4.12**	3.16
Contractual life (years)	**5.0**	5.0
Weighted average share price at grant date	**$ 2.09**	$ 2.97
Weighted average fair value at grant date	**$ 1.11**	$ 1.88

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 September 30, 2023, a performance multiplier of 2.0 was assigned for performance share units that vested in 2023 related to 2021 grants and 1.0 for performance share units granted in 2022 and 2023. 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 weighted average fair value per share of performance share rights granted during the period ended September 30, 2023 was $2.20 per award.

c) Restricted share units

The Company has a restricted share unit plan for directors, officers, employees or consultants. 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 per share of restricted rights granted during the period ended September 30, 2023 was $1.97 per award.

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 September 30, 2023 is $9.0 million of oil revenue related to September 2023 production (December 31, 2022 - $3.9 million of oil revenue related to December 2022 production).

9. REVOLVING BANK DEBT

As at September 30, 2023, the Company's first lien Credit Facility had a Borrowing Limit of $40.0 million (December 31, 2022 - $40.0 million) with an initial term to May 31, 2024. The initial term 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. Subsequent to September 30, 2023 the Company completed the semi-annual redetermination scheduled to be completed on, or before, November 30, 2023 (note 14).

As at September 30, 2023, $9.5 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 September 30, 2023 was 8.2% per annum. For the three and nine month periods ended September 30, 2023, if interest rates changed by 1% with all other variables held constant, the impact on annual cash finance expense and net income and comprehensive 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 September 30, 2023, the Credit Facility was not subject to any financial covenants and the Company was in compliance with all customary non-financial covenants.

10. 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:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	**2023**	2022
Income before income tax	**$ 4,591**	$ 10,426	**$ 5,755**	$ 5,880
Combined federal and provincial tax rate	**23%**	23%	**23%**	23%
Computed income tax expense	**1,056**	2,398	**1,324**	1,352
Increase (decrease) in income taxes resulting from:				
Non-deductible expenses	**179**	117	**448**	258
Flow-through shares - tax pools renounced	**1,829**	—	**2,835**	—
Other	**(786)**	8	**(680)**	(78)
Change in unrecognized deferred tax assets	**(1,629)**	(2,523)	**(7,210)**	(1,532)
Deferred tax expense (recovery)	**649**	—	**(3,283)**	—

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

	September 30, 2023	December 31, 2022
Assets (liabilities):		
Property, plant and equipment	**13,880**	13,503
Decommissioning obligations	**888**	859
Fair value of derivatives	**614**	(158)
Share purchase warrants	**—**	460
Share and debt issue costs	**618**	(148)
Non-capital losses	**10,326**	10,051
Total deferred tax assets	**26,326**	24,567

The deductible temporary differences included in the Company's unrecognized deferred tax assets relate to resource tax pools and amount to $12.5 million at September 30, 2023 (December 31, 2022 - $44.0 million).

As at September 30, 2023, the Company had approximately $44.8 million (December 31, 2022 – $44.0 million) of non-capital losses available for future use. The unused non-capital losses expire between 2041 and 2043.

The development and production assets and facilities owned by the Company have an approximate tax basis of $254.9 million (December 31, 2022 – $265.7 million) available for future use as deductions from taxable income, as indicated below:

	September 30, 2023	December 31, 2022
Canadian oil & gas properties	**105,976**	67,537
Canadian development expense	**119,304**	164,993
Canadian exploration expense	**9,675**	16,276
Undepreciated capital cost	**19,906**	16,851
Total tax pools	**254,861**	265,657

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.

11. FINANCE EXPENSE

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	**2023**	2022
Interest expense (income)	**$ 292**	$ (28)	**$ 1,092**	$ 129
Accretion (note 5)	**32**	21	**92**	43
Finance expense (income)	**$ 324**	$ (7)	**$ 1,184**	$ 172

12. FINANCIAL RISK MANAGEMENT

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

	September 30, 2023	December 31, 2022
Financial oil contracts	$ (2,720)	$ 738
Financial foreign exchange contracts	52	(50)
Risk management contracts	**$ (2,668)**	$ 688
Risk management contracts – current asset	147	1,437
Risk management contracts – non-current asset	27	—
Risk management contracts – current liability	(2,470)	(749)
Risk management contracts – non-current liability	(372)	—
Risk management contracts	**$ (2,668)**	$ 688

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

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	**2023**	2022
Unrealized gain (loss) on oil contracts	$ (3,262)	$ 8,463	$ (3,458)	$ 1,530
Unrealized gain (loss) on foreign exchange contracts	53	(522)	102	(522)
Unrealized gain (loss) on financial derivatives	**$ (3,209)**	$ 7,941	**$ (3,356)**	$ 1,008
Realized loss on oil contracts	(2,015)	(2,994)	(1,138)	(12,466)
Realized gain on foreign exchange contracts	71	—	120	—
Realized loss on financial derivatives	**$ (1,944)**	$ (2,994)	**$ (1,018)**	$ (12,466)
Change in fair value of derivatives	**$ (5,153)**	$ 4,947	**$ (4,374)**	$ (11,458)

At September 30, 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*)
Oct 2023 - Dec 2023	Fixed Swap	Sell	1,500	WTI	USD 76.83	(1,571)
Jan 2024 - Dec 2024	Fixed Swap	Sell	200	WTI	USD 78.75	(152)
Oct 2023 - Dec 2023	Fixed Swap	Sell	100	WTI	CAD 101.50	(106)
Jan 2024 - Dec 2024	Fixed Swap	Sell	1,200	WTI	CAD 104.30	(1,803)
Jan 2025 - Dec 2025	Fixed Swap	Sell	300	WTI	CAD 101.05	(3)
Oct 2023 - Oct 2023	Fixed Swap	Sell	300	WCS	CAD 93.00	(42)
Jan 2024 - Dec 2024	Fixed Swap	Sell	100	WCS	CAD 87.15	30
Oct 2023 - Dec 2023	Fixed Differential Swap	Sell	1,100	WCS - WTI Differential	USD (17.31)	195
Oct 2023 - Dec 2023	Fixed Differential Swap	Sell	500	WCS - WTI Differential	CAD (19.49)	258
Jan 2024 - Dec 2024	Fixed Differential Swap	Sell	1,200	WCS - WTI Differential	CAD (21.13)	474

As at September 30, 2023, if future WTI and WCS oil prices changed by $5.00 per bbl with all other variables held constant, net income and comprehensive income for the year would change by $4.3 million due to changes in the fair value of risk management contracts.

At September 30, 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*)
Jul 2023 – Dec 2023	CAD/USD	Swap	2,000,000	1.3527	(25)
Jan 2024 - Dec 2024	CAD/USD	Swap	1,000,000	1.3600	77

Subsequent to September 30, 2023, the Company has entered into the following foreign exchange risk management contracts:

Contract	Notional amount	Term	Price (US$/CAD$)
Average rate forward (US$/CAD$)	$775,000 US$/month	Jan 1, 2024 – Dec 31, 2024	1.3735
Average rate forward (US$/CAD$)	$1,000,000 US$/month	Jan 1, 2025 – Dec 31, 2025	1.3660

As at September 30, 2023, if future CAD/USD exchange rate changed by $0.05 with all other variables held constant, net income and comprehensive 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:

				Fair value		
As of September 30, 2023	**Gross**	**Netting(1)**	**Carrying Amount**	**Level 1**	**Level 2**	**Level 3**
Financial assets						
Fair value through profit and loss						
Risk management contracts	1,033	(859)	174	—	174	—
Financial liabilities						
Financial liabilities at amortized cost						
Revolving bank debt	(9,450)	—	(9,450)	(9,450)	—	—
Fair value through profit and loss						
Risk management contracts	(3,701)	859	(2,842)	—	(2,842)	—

(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.

13. 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 and nine months ended September 30, 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 and $4.7 million, respectively (three and nine months ended September 30, 2022 - $1.6 million and $3.5 million, respectively). Included within this amount are $0.9 million and $2.5 million (three and nine months ended September 30, 2022 - $0.6 million and $1.3 million, respectively) of costs charged to Rubellite through the MSA. The Company recorded accounts payable of $0.6 million owing to Perpetual as at September 30, 2023 (December 31, 2022 - accounts payable of $0.6 million).

14. SUBSEQUENT EVENT

On October 19, 2023, Rubellite signed a definitive purchase and sales agreement (the "Acquisition") to acquire additional Clearwater assets within the Figure Lake and Edwand areas as well as undeveloped land in the Nixon area of Northeast Alberta (the "Acquisition"). The purchase price of the Acquisition was $34.0 million, subject to customary closing adjustments. The Acquisition closed on November 8, 2023 and was funded through Rubellite's expanded Credit Facility as discussed below.

Concurrent with the closing of the Acquisition, the Company's Credit Facility has been increased to $60.0 million (December 31, 2022 - $40.0 million). The Credit Facility will reduce by $5.0 million at the end of each quarter during 2024, starting on March 31, 2024 to $40.0 million at December 31, 2024. The initial term will remain the same at May 31, 2024, which may be extended a further twelve months to May 31, 2025, subject to lender approval. The next semi-annual borrowing base redetermination is scheduled on, or before, May 31, 2024.