# 2023
# CONSOLIDATED FINANCIAL STATEMENTS

## MANAGEMENT'S REPORT

The consolidated 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 consolidated financial statements have been prepared by Management in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements are audited and have been prepared using accounting policies in accordance with IFRS Accounting Standards. The preparation of Management's Discussion and Analysis is based on the Company's financial results which have been prepared in accordance with IFRS Accounting Standards. It examines the Company's financial performance in 2023 to 2022 and should be read in conjunction with the consolidated 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 the consolidated 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 consolidated financial statements and Management's Discussion and Analysis before the consolidated 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 consolidated financial statements present fairly, in all material respects, the Company's financial position, financial performance and cash flows in accordance with IFRS Accounting Standards. The report of KPMG LLP outlines the scope of their examination and their opinion on the consolidated financial statements.

| | |
|---|---|
| */s/ Susan L. Riddell Rose* | */s/ Ryan A. Shay* |
| **Susan L. Riddell Rose** | **Ryan A. Shay** |
| President &<br>Chief Executive Officer | Vice President, Finance &<br>Chief Financial Officer |

March 14, 2024

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# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Rubellite Energy Inc.

***Opinion***

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

- the consolidated statements of financial position as at December 31, 2023 and December 31, 2022
- the consolidated statements of income and comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of material accounting policy information

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2023 and December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

***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 Entity 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.

KPMG

***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, 2023. 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.

***Evaluation of the preliminary acquisition-date fair value of oil and gas interests acquired as part of a business combination***

**Description of the matter**

We draw attention to note 2, note 3, and note 4, to the financial statements. Effective November 8, 2023, the Entity acquired Clearwater assets for net cash proceeds of $33.2 million (the "Acquisition"). The acquisition has been accounted for as a business combination using the acquisition method of accounting, whereby the assets acquired and the liabilities assumed are recorded at their estimated fair value on the acquisition date of November 8, 2023. In connection with the Acquisition, the Entity recorded a preliminary acquisition-date fair value of the oil and gas interests of $29.0 million.

The determination of the preliminary acquisition-date fair value of oil and gas interests involves significant estimates and assumptions, including:

- The cash flows associated with the estimate of proved and probable oil and gas reserves
- The discount rates

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

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

For purposes of estimating the preliminary acquisition-date fair value of the oil and gas interests acquired, the Entity engaged its independent third-party reserve evaluators to provide an estimate of the proved and probable oil and gas reserves as at October 1, 2023 and December 31, 2023.

**Why the matter is a key audit matter**

We identified the preliminary acquisition-date fair value of oil and gas interests acquired as part of a business combination 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 the discount rates. Additionally, the evaluation of the preliminary acquisition-date fair value of the oil and gas interests acquired requires the use of professionals with specialized skills and knowledge in valuation.

**How the matter was addressed in the audit**

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

With respect to the estimate of proved and probable oil and gas reserves at October 31, 2023:

- We evaluated the competence, capabilities and objectivity of the independent third-party reserve evaluators engaged by the Entity
- We compared forecasted oil and gas commodity prices to those published by other independent third-party reserve evaluators
- We evaluated the appropriateness of the estimate of cash flows from proved and probable oil and gas reserves as at October 1, 2023 by comparing them to the corresponding cash flows from proved and probable oil and gas reserves estimated by the independent third-party reserve evaluators as at December 31, 2023. We took into account changes in conditions and events affecting the Entity to assess the adjustments or lack of adjustments between October 1, 2023 and December 31, 2023.

With respect to the estimate of proved and probable oil and gas reserves as at December 31, 2023:

- We evaluated the competence, capabilities and objectivity of the independent third-party reserve evaluators engaged by the Entity
- We compared forecasted oil and gas commodity prices to those published by other independent third-party reserve evaluators
- We compared the 2023 actual production, operating costs, royalty costs and development costs of the Entity to those estimates used in the prior year's estimate of proved oil and gas reserves to assess the Entity'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 2023 historical results. We took into account changes in conditions and events affecting the Entity to assess the adjustments or lack of adjustments in arriving at the assumptions.

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

- Evaluating the appropriateness of the discount rates by comparing the discount rate to market and other external data

- Assessing the reasonableness of the Entity's estimated preliminary acquisition-date fair value of the oil and natural gas interests acquired in a business combination by comparing the Entity's estimate to market metrics and other external data.

***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, note 6, and note 12 to the financial statements. The Entity 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 Entity'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 Entity has $202.2 million of Development and Production Assets as of December 31, 2023.

The Entity transferred $22.6 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 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 Entity 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 $27.6 million for the year ended December 31, 2023.

The Entity recognized a deferred tax asset of $15.0 million at December 31, 2023. 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
- Forecasted operating costs
- Forecasted royalty costs
- Forecasted future development costs.

The Entity 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 rate. 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 Accounting Standards.

With respect to the estimate of proved and probable oil and gas reserves as at December 31, 2023:

- We evaluated the competence, capabilities and objectivity of the independent third-party reserve evaluators engaged by the Entity
- We compared forecasted oil and gas commodity prices to those published by other independent third-party reserve evaluators
- We compared the 2023 actual production, operating costs, royalty costs and development costs of the Entity to those estimates used in the prior year's estimate of proved oil and gas reserves to assess the Entity'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 2023 historical results. We took into account changes in conditions and events affecting the Entity to assess the adjustments or lack of adjustments 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 Entity's estimate of the recoverable amount by comparing the Entity'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 Entity'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 "2023 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 "2023 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 Accounting Standards as issued by the International Accounting Standards Board, 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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity'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 Entity'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 Entity'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 Entity to cease to continue as a going concern.

- 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 Jasmeet Kang.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
March 14, 2024

## RUBELLITE ENERGY INC.
## Consolidated Statements of Financial Position

| As at | **December 31, 2023** | December 31, 2022 |
|---|---|---|
| (*Cdn$ thousands*) | | |
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | **$ —** | $ 1,950 |
| Accounts receivable (note 14) | **10,830** | 8,522 |
| Prepaid expenses and deposits (note 14) | **433** | 524 |
| Product inventory (note 14) | **1,002** | 829 |
| Risk management contracts (note 15) | **8,796** | 1,437 |
| | **21,061** | 13,262 |
| Property, plant and equipment (note 4 and 5) | **202,203** | 135,949 |
| Exploration and evaluation (note 4 and 6) | **32,301** | 30,252 |
| Deferred tax asset (note 12) | **15,043** | 24,567 |
| Risk management contracts (note 15) | **545** | — |
| Total assets | **$ 271,153** | $ 204,030 |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (note 14) | **$ 33,932** | $ 28,053 |
| Risk management contracts (note 15) | **—** | 749 |
| Decommissioning obligations (note 7) | **77** | — |
| | **34,009** | 28,802 |
| Revolving bank debt (note 11) | **29,317** | 12,000 |
| Decommissioning obligations (note 7) | **8,516** | 3,733 |
| Total liabilities | **71,842** | 44,535 |
| **Equity** | | |
| Share capital (note 8) | **143,033** | 123,383 |
| Share purchase warrants (note 8) | **2,000** | 2,000 |
| Contributed surplus (note 9) | **3,410** | 1,805 |
| Retained earnings | **50,868** | 32,307 |
| Total equity | **199,311** | 159,495 |
| Total liabilities and equity | **$ 271,153** | $ 204,030 |
| Commitments (note 18) | | |

See accompanying notes to the consolidated financial statements.

*/s/ Holly Benson*

**Holly Benson**
Director

*/s/ Bruce Shultz*

**Bruce Shultz**
Director

## RUBELLITE ENERGY INC.
## Consolidated Statements of Income and Comprehensive Income

| Years Ended | | December 31, 2023 | | December 31, 2022 |
|---|---|---|---|---|
| *(Cdn$ thousands, except per share amounts)* | | | | |
| **Revenue** | | | | |
| Oil (note 10) | **$** | **88,968** | $ | 54,491 |
| Royalties | | **(8,513)** | | (5,713) |
| | | **80,455** | | 48,778 |
| Realized loss on risk management contracts (note 15) | | **(318)** | | (13,142) |
| Unrealized gain on risk management contracts (note 15) | | **8,652** | | 2,025 |
| | | **88,789** | | 37,661 |
| **Expenses** | | | | |
| Production and operating | | **7,371** | | 4,399 |
| Transportation | | **9,045** | | 4,448 |
| General and administrative | | **7,318** | | 3,316 |
| Share based payments (note 9) | | **3,041** | | 1,724 |
| Exploration and evaluation (note 6) | | **7,018** | | 94 |
| Gain on dispositions (note 4b) | | **(1,290)** | | — |
| Depletion (note 5) | | **27,485** | | 13,462 |
| Transaction costs (note 4a) | | **147** | | — |
| | | **28,654** | | 10,218 |
| Finance expense (note 13) | | **(2,051)** | | (410) |
| Income before income tax | | **26,603** | | 9,808 |
| **Taxes** | | | | |
| Deferred tax (expense) recovery (note 12) | | **(8,042)** | | 14,797 |
| **Net income and comprehensive income** | **$** | **18,561** | $ | 24,605 |
| **Net income per share (note 8)** | | | | |
| Basic | **$** | **0.31** | $ | 0.47 |
| Diluted | **$** | **0.30** | $ | 0.47 |

See accompanying notes to the consolidated financial statements.

**RUBELLITE ENERGY INC.**
**Consolidated Statements of Changes in Equity**

| | Share Capital | | Share purchase | Contributed | Retained | Total |
|---|---|---|---|---|---|---|
| *(Cdn$ thousands, except share amounts)* | *(thousands)* | *($thousands)* | warrants | surplus | earnings | Equity |
| Balance at December 31, 2022 | 54,826 | $ 123,383 | $ 2,000 | $ 1,805 | $ 32,307 | $ 159,495 |
| Net income | — | — | — | — | 18,561 | 18,561 |
| Flow-through shares issued, net of issue costs (note 8) | 7,000 | 19,754 | — | — | — | 19,754 |
| Deferred premium on flow-through shares (note 8) | — | (1,540) | — | — | — | (1,540) |
| Common shares issued, share-based payment plan (note 8) | 630 | 1,436 | — | (1,436) | — | — |
| Share-based payments (note 9) | — | — | — | 3,041 | — | 3,041 |
| **Balance at December 31, 2023** | **62,456** | **$ 143,033** | **$ 2,000** | **$ 3,410** | **$ 50,868** | **$199,311** |

| | Share Capital | | Share purchase | Contributed | Retained | Total |
|---|---|---|---|---|---|---|
| *(Cdn$ thousands, except share amounts)* | *(thousands)* | *($thousands)* | warrants | surplus | earnings | Equity |
| 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 (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** |

See accompanying notes to the consolidated financial statements.

# RUBELLITE ENERGY INC.
## Consolidated Statements of Cash Flows

| Years Ended | | **December 31, 2023** | | December 31, 2022 |
|---|---|---|---|---|
| (*Cdn$ thousands*) | | | | |
| **Cash flows from operating activities** | | | | |
| Net income | **$** | **18,561** | $ | 24,605 |
| Adjustments to add (deduct) non-cash items: | | | | |
| Depletion (note 5) | | **27,485** | | 13,462 |
| Share-based payments (note 9) | | **3,041** | | 1,724 |
| Deferred tax expense (recovery) (note 12) | | **8,042** | | (14,797) |
| Unrealized gain on risk management contracts (note 15) | | **(8,652)** | | (2,025) |
| Finance - accretion on decommissioning obligations (note 7) | | **128** | | 67 |
| Gain on dispositions (note 4b) | | **(1,290)** | | — |
| Exploration and evaluation expense (note 6) | | **6,842** | | — |
| Decommissioning obligations settled (note 7) | | **(3)** | | — |
| Change in non-cash working capital (note 14) | | **1,237** | | 834 |
| Net cash flows from operating activities | | **55,391** | | 23,870 |
| **Cash flows from financing activities** | | | | |
| Common shares issued (note 8) | | **19,950** | | 38,744 |
| Share issue costs (note 8) | | **(254)** | | (1,685) |
| Change in revolving bank debt (note 11) | | **17,317** | | 12,000 |
| Net cash flows from financing activities | | **37,013** | | 49,059 |
| **Cash flows used in investing activities** | | | | |
| Property, plant and equipment expenditures (note 5) | | **(43,660)** | | (67,626) |
| Exploration and evaluation expenditures (note 6) | | **(27,870)** | | (26,581) |
| Acquisition (note 4a) | | **(33,173)** | | — |
| Proceeds from dispositions (note 4b) | | **7,990** | | — |
| Change in non-cash working capital (note 14) | | **2,359** | | 7,941 |
| Net cash flows used in investing activities | | **(94,354)** | | (86,266) |
| Change in cash and cash equivalents | | **(1,950)** | | (13,337) |
| Cash and cash equivalents, beginning of year | | **1,950** | | 15,287 |
| Cash and cash equivalents, end of year | **$** | **—** | $ | 1,950 |

See accompanying notes to the 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 consolidated financial statements of the Company 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 consolidated financial statements have been prepared in accordance with IFRS Accounting Standards 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 14, 2024.

### a) Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis, except as otherwise allowed for in accordance with IFRS. These consolidated 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 consolidated financial statements in conformity with IFRS Accounting Standards 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 consolidated financial statements 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 consolidated 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) 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.

iv) 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.

v) Deferred taxes

Deferred tax assets 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 within the consolidated statements of income and comprehensive income in the period in which the change occurs.

vi) Business Combinations

Judgement is required to determine whether an acquisition constitutes a business for purposes of IFRS Accounting Standards 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.

ii) Business combinations

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

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 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. MATERIAL ACCOUNTING POLICIES

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

**a) Basis of Consolidation**

a) 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 consolidated financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

b) 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.

**b) Business combinations**

The acquisition 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. Any excess of the consideration paid greater than the fair value of the net assets received, the difference is recognized as goodwill on the consolidated statement of financial position or as a gain on bargain purchase price within the consolidated statements of income and comprehensive income. Any deficiency in the consideration transferred compared to the fair value of the net assets acquired is recognized in the consolidated statement of income. Acquisition costs incurred are expensed.

**c) 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 and liabilities

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

ii) 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 fair value through profit and loss ("FVTPL") and recorded as derivatives on the consolidated statement of financial position at fair value. Changes in the fair value of the derivatives are recognized in the consolidated statements of income and comprehensive income.

**d) 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.

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 within the consolidated statements of income and comprehensive income. 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 the consolidated statements of income and comprehensive income 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.

**e) Exploration and evaluation expenditures**

Pre-license costs, geological and geophysical costs, and lease rentals of undeveloped properties are recognized within the consolidated statements of income and comprehensive income 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 within the consolidated statement of income and comprehensive income.

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 within the consolidated statements of income and comprehensive income.

## f) 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.

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 consolidated 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 fair value less costs of disposal ("FVLCD") and its value-in use ("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 the consolidated statements of income and comprehensive income. 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.

## g) 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 consolidated statements 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.

## h) 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 consolidated 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 the consolidated statements of income and comprehensive income whereas changes in the provision arising from changes in estimated cash flows or changes in the risk-free rate are capitalized in the consolidated statement of financial position. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

## i) 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.

## j) Income tax

Income tax expense comprises current and deferred components. Income tax expense is recognized in the consolidated statements of income and comprehensive income 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.

### k) 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 consolidated statements of income and comprehensive income.

### l) Income 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 taxes 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.

### n) New Accounting Standards

In January 2020, The IASB issued amendments to IAS 1 *Presentation of Financial Statements* ("IAS 1"), to clarify its requirements for the presentation of liabilities as current or non-current in the statement of financial position. In October 2022, the IASB issued further amendments to IAS 1, which specify the classification and disclosure of a liability with covenants. These amendments to IAS 1 will be effective January 1, 2024 and the Company plans to adopt the amendments for annual periods beginning on or after January 1, 2024. The adoption of these amendments is not expected to have an impact of the Company's consolidated financial statements.

## 4. ACQUISITION AND DISPOSITION

### a) Acquisition

Effective November 8, 2023, Rubellite acquired Clearwater assets within the Figure Lake and Edwand areas, as well as undeveloped land in the Nixon area of Northeast Alberta for net cash proceeds of $33.2 million. The acquisition was funded through the expanded credit facility (note 11). The acquisition has been accounted for as a business combination using the acquisition method of accounting, whereby the assets acquired and the liabilities assumed are recorded at their estimated fair value on the acquisition date of November 8, 2023. Rubellite incurred transaction costs of $0.1 million which have been recognized in the consolidated statements of income and comprehensive income. All of the assets acquired are included within the Company's Clearwater CGU.

The preliminary purchase price, based on management's estimates of fair values, is as follows:

| | | |
|---|---|---|
| **Assets acquired** | | |
| Oil and gas interests (note 5) | $ | 29,032 |
| Exploration and evaluation assets (note 6) | | 4,526 |
| Decommissioning provisions (note 7) | | (385) |
| **Net assets acquired** | **$** | **33,173** |
| | | |
| **Consideration** | | |
| Cash | $ | 33,173 |
| **Total consideration paid** | **$** | **33,173** |

The Company used estimated proved and probable reserves from an independent third-party reserve evaluation to estimate the acquisition date fair value of oil and gas interests acquired. For the purposes of estimating the preliminary acquisition date fair value of the oil and gas interests acquired, the Company engaged its independent third-party reserve evaluator to provide an estimate of proved and probable oil and gas reserves both as at October 1, 2023 and December 31, 2023. Management took into account production, conditions and events to assess adjustments to the estimated reserve value both at October 1, 2023 and December 31, 2023 as compared to the estimated reserves at November 8, 2023. Exploration and evaluation assets were fair valued based on an internally prepared report reflecting the estimated market value of undeveloped land. The estimated proved and probable oil and gas reserves and related cash flows were discounted using rates between 15% and 30%. The fair value of decommissioning obligations was initially estimated using a credit adjusted risk-free rate of 11.7% and an implied inflation rate of 1.6%. The purchase price allocation is not final as the Company continues to obtain and verify the information required to finalize the fair value of the oil and gas interests acquired.

Oil and gas revenue of $2.5 million and net income of $1.5 million are included in the consolidated statements of income and comprehensive income since the closing of the acquisition on November 8, 2023. If the acquisition had occurred on January 1, 2023 the estimated contributed revenues would have been $10.5 million and estimated net income before tax would have been $6.5 million.

### b) Disposition

On December 4, 2023 the Company disposed of a 1.5% non-convertible gross overriding royalty ("GORR"), which reverts to a 1.0% GORR after payout for cash consideration of $8.0 million. A gain of $1.3 million was recorded in the consolidated statements of income and comprehensive income.

## 5. PROPERTY, PLANT AND EQUIPMENT

| | | Development and Production Assets |
|---|---|---|
| **Cost** | | |
| 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 |
| Additions | | **43,660** |
| Transfer from exploration and evaluation (note 6) | | **22,606** |
| Acquisitions (note 4a) | | **28,647** |
| Dispositions (note 4b) | | **(5,801)** |
| Change in decommissioning obligations related to PP&E (note 7) | | **4,735** |
| **December 31, 2023** | **$** | **245,156** |
| | | |
| **Accumulated depletion** | | |
| December 31, 2021 | $ | (1,389) |
| Depletion | | (13,971) |
| December 31, 2022 | $ | (15,360) |
| Depletion(1) | | **(27,593)** |
| **December 31, 2023** | **$** | **(42,953)** |
| | | |
| **Carrying amount** | | |
| December 31, 2022 | $ | 135,949 |
| **December 31, 2023** | **$** | **202,203** |

(1) During the year ended December 31, 2023, depletion includes $0.1 million which has been capitalized to inventory (December 31, 2022 - $0.5 million).

As at December 31, 2023, forecast future development costs of $145.1 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 $3.4 million (December 31, 2022 – $0.8 million) of salvage value for production equipment was excluded. Depletion expense was $27.6 million (December 31, 2022 - $14.0 million) on development and production assets for the year ended December 31, 2023.

### a) Impairment

There were no indicators of impairment related to the Company's CGU as at December 31, 2023 and December 31, 2022.

The Company transferred $22.6 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.

## 6. EXPLORATION AND EVALUATION

| | | **December 31, 2023** | | December 31, 2022 |
|---|---|---|---|---|
| Balance, beginning of year | **$** | **30,252** | $ | 11,614 |
| Acquisitions (note 4a) | | **4,526** | | — |
| Dispositions (note 4b) | | **(899)** | | — |
| Additions | | **27,870** | | 26,581 |
| Transfer to property, plant, and equipment (note 5) | | **(22,606)** | | (7,943) |
| Exploration and evaluation expense | | **(6,842)** | | — |
| **Balance, end of year** | **$** | **32,301** | $ | 30,252 |

During the year ended December 31, 2023, $7.0 million was charged to E&E expense in the consolidated statements 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 $0.2 million of costs charged directly to E&E expense (December 31, 2022 - $0.1 million).

***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 gas interests in PP&E. At December 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.

## 7. DECOMMISSIONING OBLIGATIONS

The following table summarizes changes in decommissioning obligations:

| | | **December 31, 2023** | | December 31, 2022 |
|---|---|---|---|---|
| Balance, beginning of year | **$** | **3,733** | $ | 1,976 |
| Liabilities settled | | **(3)** | | — |
| Obligations incurred | | **2,143** | | 2,661 |
| Obligations acquired (note 4) | | **385** | | — |
| Change in rate on acquisition (note 4) | | **1,611** | | — |
| Revisions to estimates | | **596** | | (971) |
| Accretion | | **128** | | 67 |
| **Total decommissioning obligations, end of year** | **$** | **8,593** | $ | 3,733 |
| | | | | |
| Decommissioning obligations - current | **$** | **77** | $ | — |
| Decommissioning obligations - non-current | | **8,516** | | 3,733 |
| **Total decommissioning obligations** | **$** | **8,593** | $ | 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 consolidated 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:

| | | **December 31, 2023** | | December 31, 2022 |
|---|---|---|---|---|
| Undiscounted obligations | **$** | **6,029** | $ | 4,859 |
| Average risk-free rate | | **3.0%** | | 3.3% |
| Inflation rate | | **1.6%** | | 2.1% |
| Expected timing of settling obligations | | **1 to 25 years** | | 1 to 25 years |

## 8. SHARE CAPITAL

### a) Authorized

Authorized capital consists of an unlimited number of common shares.

### b) Issued and outstanding

| | **December 31, 2023** | | December 31, 2022 | |
|---|---|---|---|---|
| | **Shares *(thousands)*** | **Amount *($thousands)*** | Shares *(thousands)* | Amount *($thousands)* |
| Balance, beginning of year | **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 | **630** | **1,436** | 103 | 226 |
| Share issue costs(1) | **—** | **(196)** | — | (1,061) |
| **Balance, end of year** | **62,456** | **$ 143,033** | 54,826 | $ 123,383 |

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

As of December 31, 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 $0.2 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 $1.5 million has been realized and included in the deferred tax recovery, leaving a remaining liability of nil as at December 31, 2023. The gross proceeds of the offering were used to incur eligible qualified expenditures which the Company renounced to the purchasers of the flow-through shares as of December 31, 2023. As of December 31, 2023, the Company has spent and renounced the $20.0 million of eligible qualifying expenditures, satisfying its commitment for 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*) | **December 31, 2023** | December 31, 2022 |
|---|---|---|
| Net income | **$ 18,561** | $ 24,605 |
| Weighted average common shares outstanding – basic | **60,346** | 52,093 |
| Weighted average common shares outstanding – diluted | **61,075** | 52,471 |
| Net income per share – basic | **$ 0.31** | $ 0.47 |
| Net income per share – diluted | **$ 0.30** | $ 0.47 |

Per share amounts have been calculated using the weighted average number of common shares outstanding. For the year ended December 31, 2023, 7.0 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 |
|---|---|---|---|---|
| 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 | 1,080 | 486 | 411 | 1,977 |
| Exercised | (31) | (370) | (233) | (634) |
| Forfeited | (23) | — | (19) | (42) |
| **December 31, 2023** | **2,696** | **464** | **530** | **3,690** |

During the year ended December 31, 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:

| | **December 31, 2023** | December 31, 2022 |
|---|---|---|
| Share options | **$ 1,109** | $ 659 |
| Restricted share units | **718** | 484 |
| Performance share units | **1,214** | 581 |
| **Share-based payment expense** | **$ 3,041** | $ 1,724 |

### 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:

| | **December 31, 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 December 31, 2023, a performance multiplier of 2.0 was assigned for performance share units that vested in 2023 related to 2021 grants, 1.9 for performance share units granted in 2022 and 1.0 for performance share units granted in 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 year ended December 31, 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 year ended December 31, 2023 was $1.97 per award.

## 10. 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 $25^{th}$ day of the month following production. Included in accounts receivable at December 31, 2023 is $7.5 million of oil revenue related to December 2023 production (December 31, 2022 - $3.9 million of oil revenue related to December 2022 production).

## 11. REVOLVING BANK DEBT

As at December 31, 2023, the Company's first lien Credit Facility had a borrowing limit of $57.0 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 is 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 May 31, 2024.

As at December 31, 2023, $29.3 million (December 31, 2022 - $12.0 million) was drawn against the Credit Facility and $0.4 million of letters of credit has been issued (December 31, 2022 - nil). Borrowings under the Credit Facility bear interest at the 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, 2023 was 10.1% per annum. For the year ended December 31, 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 $0.3 million.

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

At December 31, 2023, 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 consolidated 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, 2023** | | December 31, 2022 |
|---|---|---|---|---|
| Income before income tax | **$** | **26,603** | $ | 9,808 |
| Combined federal and provincial tax rate | | **23%** | | 23% |
| Computed income tax expense | **$** | **6,119** | $ | 2,256 |
| Increase (decrease) in income taxes resulting from: | | | | |
| Non-deductible expenses | | **700** | | 398 |
| Flow-through shares - tax pools renounced | | **3,048** | | — |
| Other | | **(377)** | | (86) |
| Change in unrecognized deferred tax assets | | **(1,448)** | | (17,365) |
| **Deferred tax expense (recovery)** | **$** | **8,042** | $ | (14,797) |

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

| | | December 31, 2022 | | Recognized in earnings | | Recognized in equity | | **December 31, 2023** |
|---|---|---|---|---|---|---|---|---|
| Assets (liabilities): | | | | | | | | |
| Property, plant and equipment | $ | 13,503 | $ | (9,728) | $ | (1,540) | **$** | **2,235** |
| Decommissioning obligations | | 859 | | 1,118 | | — | | **1,977** |
| Fair value of derivatives | | (158) | | (1,990) | | — | | **(2,148)** |
| Share purchase warrants | | 460 | | (460) | | — | | **—** |
| Share and debt issue costs | | (148) | | 652 | | 58 | | **562** |
| Non-capital losses | | 10,051 | | 2,366 | | — | | **12,417** |
| **Total deferred tax assets** | $ | 24,567 | $ | (8,042) | $ | (1,482) | **$** | **15,043** |

| | December 31, 2021 | Recognized in earnings | Recognized in equity | December 31, 2022 |
|---|---|---|---|---|
| Assets (liabilities): | | | | |
| Property, plant and equipment | $ 6,397 | $ 7,106 | $ — | $ 13,503 |
| Decommissioning obligations | 455 | 404 | — | 859 |
| Fair value of derivatives | 308 | (466) | — | (158) |
| Share purchase warrants | 460 | — | — | 460 |
| Share and debt issue costs | 46 | (818) | 624 | (148) |
| Non-capital losses | 1,480 | 8,571 | — | 10,051 |
| **Total deferred tax assets** | $ 9,146 | $ 14,797 | $ 624 | $ 24,567 |

The deductible temporary differences included in the Company's unrecognized deferred tax assets relate to resource tax pools and amount to $37.5 million at December 31, 2023 (December 31, 2022 - $44.0 million).

As at December 31, 2023, the Company had approximately $53.9 million (December 31, 2022 – $44.2 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 $278.3 million (December 31, 2022 – $265.7 million) available for future use as deductions from taxable income, as indicated below:

| | **December 31, 2023** | December 31, 2022 |
|---|---|---|
| Canadian oil & gas properties | **$ 120,430** | $ 67,537 |
| Canadian development expense | **125,696** | 164,993 |
| Canadian exploration expense | **8,157** | 16,276 |
| Undepreciated capital cost | **23,983** | 16,851 |
| **Total tax pools** | **$ 278,266** | $ 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.

## 13. FINANCE EXPENSE

| | **December 31, 2023** | December 31, 2022 |
|---|---|---|
| Interest expense | **$ 1,923** | $ 343 |
| Accretion (note 7) | **128** | 67 |
| **Finance expense** | **$ 2,051** | $ 410 |

## 14. SUPPLEMENTAL CASH FLOW INFORMATION

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

| | **December 31, 2023** | December 31, 2022 |
|---|---|---|
| Accounts receivable | **$ (2,308)** | $ (1,677) |
| Prepaid expenses and deposits | **91** | (277) |
| Product Inventory | **(66)** | (320) |
| Accounts payable and accrued liabilities | **5,879** | 11,049 |
| | **$ 3,596** | $ 8,775 |
| Related to operating activities | **1,237** | 834 |
| Related to investing activities | **2,359** | 7,941 |
| | **$ 3,596** | $ 8,775 |

## 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 gas marketers and derivative contract counterparties.

Receivables from oil and 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 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, 2023 was $20.2 million (December 31, 2022 - $11.9 million), representing the Company's maximum credit exposure. The total amount of accounts receivable 90 days past due is $0.2 million at December 31, 2023 (December 31, 2022 - nominal).

### b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meets its financial obligations as they become due. The Company's approach to managing liquidity 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 income 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.

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

| | **December 31, 2023** | December 31, 2022 |
|---|---|---|
| Financial oil contracts | **$ 7,882** | $ 738 |
| Financial foreign exchange contracts | **1,459** | (50) |
| **Risk management contracts** | **$ 9,341** | $ 688 |
| | | |
| Risk management contracts – current asset | **8,796** | 1,437 |
| Risk management contracts – non-current asset | **545** | — |
| Risk management contracts – current liability | **—** | (749) |
| **Risk management contracts** | **$ 9,341** | $ 688 |

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

| | **December 31, 2023** | December 31, 2022 |
|---|---|---|
| Unrealized gain on oil contracts | **$ 6,715** | $ 2,075 |
| Unrealized gain (loss) on foreign exchange contracts | **1,937** | (50) |
| **Unrealized gain on financial derivatives** | **$ 8,652** | $ 2,025 |
| Realized loss on oil contracts | **(383)** | (13,039) |
| Realized gain (loss) on foreign exchange contracts | **65** | (103) |
| **Realized loss on financial derivatives** | **$ (318)** | $ (13,142) |
| **Change in fair value of derivatives** | **$ 8,334** | $ (11,117) |

At December 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*) |
|---|---|---|---|---|---|---|
| Jan 2024 - Dec 2024 | Fixed Swap | Sell | 200 | WTI | USD 78.75 | 696 |
| Jan 2024 - Dec 2024 | Fixed Swap | Sell | 350 | WTI | CAD 100.80 | 841 |
| Jan 2024 - Dec 2024 | Fixed Swap | Sell | 350 | WTI | CAD 102.50 | 1,053 |
| Jan 2024 - Dec 2024 | Fixed Swap | Sell | 200 | WTI | CAD 106.87 | 913 |
| Jan 2024 - Dec 2024 | Fixed Swap | Sell | 100 | WTI | CAD 108.51 | 515 |
| Jan 2024 - Dec 2024 | Fixed Swap | Sell | 200 | WTI | CAD 108.90 | 1,057 |
| Jan 2024 - Dec 2024 | Fixed Swap | Sell | 200 | WTI | CAD 104.00 | 709 |
| Jan 2024 - Dec 2024 | Fixed Swap | Sell | 200 | WTI | CAD 105.00 | 780 |
| Jan 2024 - Dec 2024 | Fixed Swap | Sell | 150 | WTI | CAD 105.89 | 617 |
| Jan 2024 - Dec 2024 | Fixed Swap | Sell | 700 | WCS - WTI Differential | CAD (20.50) | 212 |
| Jan 2024 - Dec 2024 | Fixed Swap | Sell | 200 | WCS - WTI Differential | CAD (21.87) | (37) |
| Jan 2024 - Dec 2024 | Fixed Swap | Sell | 100 | WCS - WTI Differential | CAD (21.92) | (20) |
| Jan 2024 - Dec 2024 | Fixed Swap | Sell | 200 | WCS - WTI Differential | CAD (22.17) | (58) |
| Jan 2024 - Dec 2024 | Fixed Swap | Sell | 200 | WCS - WTI Differential | CAD (24.00) | (189) |
| Jan 2024 - Dec 2024 | Fixed Swap | Sell | 200 | WCS - WTI Differential | CAD (21.21) | 10 |
| Jan 2024 - Dec 2024 | Fixed Differential Swap | Sell | 100 | WCS | CAD 87.15 | 492 |
| Jan 2024 - Dec 2024 | Fixed Differential Swap | Sell | 100 | WCS | CAD 81.50 | 291 |

As at December 31, 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 $4.0 million due to changes in the fair value of risk management contracts.

Subsequent to December 31, 2023, 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*) |
|---|---|---|---|---|---|
| Apr 2024 - Dec 2024 | Fixed Differential Swap | Sell | 350 | WCS - WTI Differential | USD (13.95) |
| Apr 2024 - Jun 2024 | Fixed Swap | Sell | 700 | WCS | USD 64.37 |
| Jul 2024 - Sep 2024 | Fixed Swap | Sell | 500 | WCS | USD 64.40 |
| Jul 2024 - Sep 2024 | Fixed Swap | Sell | 200 | WCS | USD 62.25 |

At December 31, 2023, the Company has entered into the following USD/CAD foreign exchange swaps:

| Contract | Notional amount | Term | Price (CAD$/US$) |
|---|---|---|---|
| Average rate forward (CAD$/US$) | $1,775,000 US$/month | Jan 1, 2024 – Dec 31, 2024 | 1.3659 |
| Average rate forward (CAD$/US$) | $1,000,000 US$/month | Jan 1, 2025 – Dec 31, 2025 | 1.3660 |

As at December 31, 2023, if future CAD$/US$ exchange rate changed by $0.05 with all other variables held constant, net income and comprehensive income for the year would change by $1.8 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, 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 | 9,645 | (304) | 9,341 | — | 9,341 | — |
| **Financial liabilities** | | | | | | |
| Financial liabilities at amortized cost | | | | | | |
| Revolving bank debt | (29,317) | — | (29,317) | (29,317) | — | — |
| Fair value through profit and loss | | | | | | |
| Risk management contracts | (304) | 304 | — | — | — | — |

(1) Risk management contract assets and liabilities presented in the consolidated 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, 2022 | 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 | 1,437 | — | 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 consolidated 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 $57.0 million first lien credit facility with a syndicate of lenders, under which $27.3 million was available at December 31, 2023, comprised of current borrowings of $29.3 million (December 31, 2022 - $12.0 million), letters of credit of $0.4 million (December 31, 2022 - nil) and cash and cash equivalents of nil (December 31, 2022 - $2.0 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, 2023** | December 31, 2022 |
|---|---|---|
| Short-term compensation | **$ 1,056** | $ 125 |
| Share-based payments | **1,507** | 1,135 |
| **Total** | **$ 2,563** | $ 1,260 |

Short-term compensation for key management personnel is recognized through the Management and Operating Service Agreement ("MSA") with Perpetual and is recognized in general and administrative expense.

## 17. RELATED PARTIES

Rubellite and Perpetual are considered related parties due to the existence of the 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 year ended December 31, 2023, Rubellite was billed by Perpetual for net transactions, which are considered to be normal course of oil and gas operations totaling $6.9 million (December 31, 2022 - $5.6 million). Included within this amount are $3.4 million (December 31, 2022 - $1.9 million) of costs charged to Rubellite through the MSA. The Company recorded accounts payable of $1.9 million owing to Perpetual as at December 31, 2023 (December 31, 2022 - accounts payable of $0.6 million).

## 18. CONTRACTUAL OBLIGATIONS

As at December 31, 2023, the Company's minimum contractual obligations over the next five years and thereafter, excluding estimated interest payments, are as follows:

| | 2024 | 2025 | Thereafter | Total |
|---|---|---|---|---|
| **Contractual obligations** | | | | |
| Accounts payable and accrued liabilities | 33,932 | — | — | **33,932** |
| Revolving bank debt | — | 29,317 | — | **29,317** |
| **Total** | **33,932** | **29,317** | **—** | **63,249** |

During the fourth quarter of 2023, the Company sold a 1.5% non-convertible GORR before payout, reverting to a 1.0% non-convertible GORR after payout, effective December 4, 2023 with royalties payable as of October 1, 2023. The Company has a drilling commitment on the GORR lands that must be fulfilled by June 30, 2026 (the "Commitment Date"). In the event the Company fails to fulfill the drilling commitment, the Company is required to pay $0.1 million per well not spud by the Commitment Date. As at December 31, 2023, the Company has drilled two (2.0 net) of the 59 wells that are required to meet the drilling commitment.