

## THIRD QUARTER 2021 HIGHLIGHTS

- For the 27-day period ended September 30, 2021, Rubellite recorded production of 561 bbl/d (100% conventional heavy oil).
- Operating netbacks were \$0.7 million, or \$46.26/bbl, reflecting strong Western Canadian Select (“WCS”) benchmark prices and a realized oil price of \$65.52/bbl.
- On October 5, 2021 Rubellite closed \$83.5 million in equity financings through the issuance of approximately 41.7 million shares, all priced at \$2.00 per share.
- Proceeds from these financings fully repaid \$59.4 million in promissory notes related to the acquisition of the Company’s Clearwater assets from Perpetual and established Rubellite with no net debt and positive net working capital at September 30, 2021 pro forma the October 5<sup>th</sup> financings of \$21.6 million.
- Drilling activity from Rubellite’s inception on July 12<sup>th</sup> to quarter end totaled 7 (6.0 net) Clearwater wells, including an exciting new exploration success at Figure Lake which Rubellite intends to immediately follow up with a second rig to start drilling in mid-November.
- Significant capital efficiency improvements are evident with the scale and continuity of the drilling program as drilling optimization and field efficiencies have been realized. Costs per well and costs per meter drilled have steadily declined through the drilling program to date.

## OPERATIONS UPDATE

Rubellite currently has seventeen (16.0 net) multi-lateral wells drilled, including the six (6.0 net) original wells drilled by Perpetual at Ukalta and the one (1.0 net) producing 2.5 leg multi-lateral well at Figure Lake. New wells that have been drilled, completed and commenced production since Rubellite’s inception in July 2021 include two (1.0 net) wells at Marten Hills which were rig released in mid-July and four (4.0 net) producing wells at Figure Lake. The first four (4.0 net) wells of the planned eight well drilling program at Ukalta have been drilled and completed and three have recently initiated load oil recovery and testing operations. Sales production is expected to ramp up as these new wells fully recover load oil from the drilling process, which is recycled for future drilling operations to the extent possible, and production volumes commence delivery to sales terminals.

At Marten Hills, sales production commenced in late August after fully recovering load oil from drilling operations. Rubellite is pleased to report that the two, eight leg multi-lateral wells continue to have average performance consistent with Rubellite’s Marten Hills type curve, with an average IP30 production level of approximately 120 bbl/d of 22° API crude oil for the two wells. An additional 4 (2.0 net) follow up wells are scheduled to be drilled in the first quarter of 2022.

At Rubellite’s Figure Lake property, the first two (2.0 net) exploratory wells at the south end of the property each penetrated over 8,000 meters of Clearwater reservoir, were brought onstream August 26, 2021 and began producing formation oil for sales after a three-week period of load oil recovery. Rubellite is excited to announce that the two, multi-lateral wells have averaged performance consistent with Rubellite’s Figure Lake type curve, at an average IP30 production level of approximately 120 bbl/d of conventional heavy crude oil. Based on these results to date, Rubellite has procured a second drilling rig to follow up on this exploration success, with spud expected in mid-November, adding four new wells to the existing south Figure Lake pad by mid-January 2022. Additional production volumes from this accelerated program will not contribute materially to fourth quarter 2021 production levels but will serve to accelerate the ramp up of production volumes in the first quarter of 2022.

At the extreme north end of the Figure Lake land base, two additional exploratory multi-lateral wells were drilled over 10 miles north of the south Figure Lake pad site. These two wells have recovered load oil from drilling operations and have recently begun producing formation oil. Initial early production results are below the performance curve of the south Figure Lake wells. Rubellite will continue to monitor production data and re-evaluate performance expectations before any follow up drilling occurs in the north Figure Lake area.

At Ukalta, one (1.0 net) six-leg multi-lateral exploratory well at the southwest edge of the property, targeting a new geologic zone within the Clearwater, was drilled off a single well pad and the first well of the seven (7.0 net) multi-lateral well development drilling program across two pads, primarily targeting development of the main proven Clearwater sand target, was spud prior to the end of the quarter. Since the end of the third quarter, three of four (4.0 net) wells on the first of two development pad sites have been successfully drilled and rig released, and load oil recovery has commenced.

Drilling costs, net of forecast oil-based mud recoveries, are on track and showing continuous improvement as expected with the increased scale of activity and continuity of operations. The Company is also working to reduce time lags for production start-up on multi-well pads by utilizing the drilling rig for completion operations and setting up pads for concurrent drilling and production operations, thereby improving capital efficiencies and accelerating economic returns.

## 2021 OUTLOOK

Rubellite's Board of Directors has approved fourth quarter 2021 capital expenditures of \$16 to \$18 million, an increase of \$6 to \$8 million from previous guidance released September 7, 2021. Expenditures in the fourth quarter will be largely directed to the drilling, completion and equipping of the seven (7.0 net) planned development wells at Ukalta and three (3.0 net) of the accelerated four (4.0 net) well program following up the successful exploration results in the south Figure Lake area. A combination of six and eight leg multi-lateral well designs are planned to continue to evaluate opportunities to improve capital efficiencies. The Figure Lake drilling program will be partially funded by the previously announced Figure Lake GORR financing, which provided 100% of the funding for the four wells drilled at Figure Lake during the third quarter and will provide approximately \$0.2 million per well for the next 12 wells in Figure Lake area. Additional capital spending is also expected for preparatory work for first quarter 2022 activities in the Ukalta area.

The procurement of the second drilling rig will also accelerate some of Rubellite's previously planned 2022 activity into the first quarter of 2022. The table below details Rubellite's anticipated capital spending and drilling activities for the fourth quarter of 2021 and first quarter of 2022.

### **Fourth Quarter 2021 and First Quarter 2022 Exploration and Development Forecast Capital Expenditures<sup>(1)</sup>**

|                            | <b>Q4 2021</b><br><i>(\$ millions)</i> | <b># of wells</b><br><i>(gross/net)</i> | <b>Q1 2022</b><br><i>(\$ millions)</i> | <b># of wells</b><br><i>(gross/net)</i> |
|----------------------------|--|---|--|---|
| Marten Hills               |  | -/-                                     |  | 4/2.0                                   |
| Figure Lake <sup>(2)</sup> |  | 3/3.0                                   |  | 1/1.0                                   |
| Ukalta                     |  | 7/7.0                                   |  | 6/6.0                                   |
| <b>Total<sup>(3)</sup></b> | <b>\$16 - \$18</b>                     | <b>10/10.0</b>                          | <b>\$10 - \$12</b>                     | <b>11/9.0</b>                           |

<sup>(1)</sup> Third quarter 2021 capital spending on Rubellite's Clearwater assets was commensurate with the third quarter component of H2 2021 guidance dated September 7, 2021.

<sup>(2)</sup> The Figure Lake GORR financing is forecast to contribute \$0.6 million in Q4 2021 and \$0.2 million in Q1 2022 to fund Figure Lake drilling activities.

<sup>(3)</sup> Excludes undeveloped land purchases and acquisitions, if any.

Development drilling activity across Rubellite's three operating areas is forecast to drive rapid production growth. With wells drilled at Ukalta beginning to contribute to reported sales volumes in early December, Rubellite forecasts Q4 2021 average daily production of approximately 650 to 700 bbl/d. Production sales volumes will ramp up significantly through year end 2021 and into early 2022 and are expected to reach in excess of 2,000 bbl/d during the first quarter of 2022. The Company expects to update full year 2022 guidance after stabilized production results from the ongoing Ukalta and Figure Lake drilling programs have been established. Rubellite also plans to continue exploration activities to pursue additional prospective land capture and de-risk acreage.

In the context of current strip pricing, Rubellite's organic growth business plan is expected to be fully funded, drive material adjusted funds flow growth over the next two years and generate free funds flow by 2022.



Susan Riddell Rose  
President and Chief Executive Officer  
November 10, 2021

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

*The following is management's discussion and analysis ("MD&A") of Rubellite Energy Inc.'s ("Rubellite", the "Company" or the "Corporation") activity from incorporation on July 12, 2021 and operating and financial results for the period from September 3, 2021, being the effective date of the completion of the plan of arrangement (the "Arrangement") involving Perpetual Energy Inc. ("Perpetual"), the shareholders of Perpetual and Rubellite, to September 30, 2021. This MD&A should be read in conjunction with the Corporation's unaudited condensed interim financial statements. The Corporation's financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") which require publicly accountable enterprises to prepare their financial statements using International Financial Reporting Standards ("IFRS"). Readers are referred to the advisories for additional information regarding forecasts, assumptions and other forward-looking information contained in the "Forward-Looking Information and Statements" section of this MD&A. The date of this MD&A is November 9, 2021.*

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

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

### **ADVISORIES**

**NON-GAAP MEASURES:** The terms "adjusted funds flow", "free funds flow" and "operating netback" used in this MD&A are not recognized under GAAP. Management believes that in addition to net income (loss) and net cash flows from (used in) operating activities as defined by GAAP, these terms are a useful supplemental measure to evaluate performance. Users are cautioned however that these measures should not be construed as an alternative to net income (loss) or net cash flows from (used in) operating activities determined in accordance with GAAP as an indication of Rubellite's performance and may not be comparable with the calculation of similar measurements by other entities.

**Adjusted funds flow:** Adjusted funds flow is calculated based on cash flows from (used in) operating activities, excluding changes in non-cash working capital and expenditures on decommissioning obligations since the Company believes the timing of collection, payment or incurrence of these items is variable. Expenditures on decommissioning obligations may vary from period to period depending on capital programs and the maturity of Rubellite's operating areas. Expenditures on decommissioning obligations are managed through the capital budgeting process which considers available adjusted funds flow. Management uses adjusted funds flow and adjusted funds flow per boe as key measures to assess the ability of the Company to generate the funds necessary to finance capital expenditures, expenditures on decommissioning obligations and meet its financial obligations.

**Free funds flow:** Free funds flow is defined as adjusted funds flow less total net capital expenditures. Total net capital expenditures is defined as total capital expenditures before acquisitions and non-core dispositions.

**Operating netback:** Operating netback is calculated by deducting royalties, production and operating expenses, and transportation costs from realized revenue. Operating netback is also calculated on a per boe basis using total production sold in the period. Rubellite considers operating netback to be an important performance measure as it demonstrates its profitability relative to current commodity prices. Realized revenue is realized oil revenue which includes realized gains (losses) on financial crude oil and foreign exchange contracts. Realized revenue is used by management to calculate the Company's net realized commodity prices, taking into account the monthly settlements of financial crude oil and natural gas forward sales, collars, basis differentials, and forward foreign exchange sales. These contracts are put in place to protect Rubellite's adjusted funds flow from potential volatility.

**VOLUME CONVERSIONS:** Barrel of oil equivalent ("boe") may be misleading, particularly if used in isolation. In accordance with National Instrument 51-101, a conversion ratio for conventional natural gas of 6 Mcf:1 bbl has been used, which is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In addition, utilizing a conversion on a 6 Mcf:1 bbl basis may be misleading as an indicator of value as the value ratio between conventional natural gas and crude oil, based on the current prices of natural gas and crude oil, differ significantly from the energy equivalency of 6 Mcf:1 bbl. A conversion ratio of 1 bbl of heavy crude oil to 1 bbl of NGL has also been used throughout this MD&A.

### **THIRD QUARTER 2021 COMMENCEMENT OF OPERATIONS**

Rubellite commenced operations when all of Perpetual's Clearwater lands, wells, roads and related facilities in northeast Alberta (the "Clearwater Assets") were acquired by Rubellite. Third quarter operating results reflect the period from September 3, 2021, the effective date of the completion of the Arrangement, to September 30, 2021.

The Clearwater Assets were acquired from Perpetual for aggregate consideration of \$65.5 million. The consideration consists of promissory notes totaling \$59.4 million, which were paid in cash on October 5, 2021, the issuance of 680,485 Rubellite common shares valued at \$1.4 million, the return of the 8.2 million Perpetual common shares valued at \$2.8 million and issuance of warrants to purchase 4.0 million Rubellite common shares at a price of \$3.00 per share for a period of five years, valued at \$2.0 million.

The acquisition 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 the estimated fair value on September 3, 2021. There were \$0.4 million of transaction costs incurred by the Company and expensed through earnings. With the recognition of a \$9.1 million deferred tax asset at September 3, 2021, a gain of \$9.1 million was recognized in net income.

Subsequent to September 30, 2021, on October 5, 2021, Rubellite closed \$83.5 million in equity financings, all priced at \$2.00 per share, through a combination of:

- i) a backstopped Arrangement Warrant financing, which closed on October 5, 2021 and resulted in the issuance of 16.7 million Rubellite common shares for total proceeds of \$33.5 million;
- ii) a non-brokered \$20 million private placement financing (10 million subscription receipts) that closed on October 5, 2021. The cash received is presented as restricted cash with a current non-brokered placement payable on the statement of financial position as at September 30, 2021. On October 5, 2021, the cash was released from trust and the non-brokered placement payable transferred to share capital as the 10 million common shares of Rubellite were issued; and
- iii) a brokered \$30.0 million subscription receipt financing (15 million subscription receipts) that closed on July 13, 2021 with cash held in escrow by a third-party trustee that was released on October 5, 2021. On October 5, 2021, each subscription receipt issued was exchanged on a one-to-one basis for 15 million common shares of Rubellite. The cash received is presented as restricted cash with a current subscription receipt payable on the statement of financial position as at September 30, 2021.

On October 5, 2021, the Company entered into a first lien credit facility with a syndicate of lenders to establish a new \$3 million revolving credit facility with an initial term to May 31, 2022, which may be extended for a further twelve months to May 31, 2023 subject to lender approval. The Credit Facility is secured by general first lien security agreements covering all present and future property of the Company and is not subject to any financial covenants.

### THIRD QUARTER FINANCIAL AND OPERATING RESULTS

|  | <b>For the period ended<br/>September 30, 2021<sup>(1)</sup></b> |
|--|--|
| <i>(\$ thousands, except as noted)</i>                 |  |
| <b>Financial</b>                                       |  |
| Petroleum and natural gas revenue                      | 992  |
| Operating netback                                      | 700  |
| General and administrative                             | (192)  |
| Transaction costs                                      | (382)  |
| Share-based payments                                   | (10)   |
| Depletion  | (294)  |
| Gain on acquisition associated with deferred tax       | 9,146  |
| Net income   | 8,967  |
| Net income per share - basic                           | \$12.34  |
| Net income per share - diluted                         | \$5.16   |
| <br>   |  |
| Total assets   | 132,370  |
| Capital expenditures, acquisition of Clearwater assets | 56,489   |
| E&E expenditures, acquisition of Clearwater assets     | 10,094   |
| <br>   |  |
| Cash flow from (used in) operating activities          | -  |
| Change in non-cash working capital                     | 126  |
| Adjusted funds flow                                    | (126)  |

*(\$ thousands, except as noted)*

|   |         |
|---|---------|
| <b>Operating</b>  |         |
| Daily average production                                      |         |
| Oil (bbl/d)   | 561     |
| Total (boe/d)   | 561     |
| Average prices  |         |
| Realized oil price (\$/bbl)                                   | 65.52   |
| Benchmark prices  |         |
| West Texas Intermediate ("WTI") light oil (USD\$/bbl)         | 71.54   |
| West Texas Intermediate ("WTI") light oil (CAD\$/bbl)         | 90.66   |
| Western Canadian Select ("WCS") Heavy Oil average (CAD\$/bbl) | 73.52   |
| WCS differential (USD\$/bbl)                                  | (13.52) |

<sup>(1)</sup> Reflects activity from incorporation on July 12, 2021 and operating results from September 3, 2021 the effective date of the Arrangement, to September 30, 2021.

## Operating netbacks

The following table highlights Rubellite's operating netbacks for the period from September 3, 2021 to September 30, 2021:

|                                   | For the period ended<br>September 30, 2021 <sup>(1)</sup> |                       |
|-----------------------------------|---|-----------------------|
| <b>Boe operating netback</b>      |   |                       |
| Production ( <i>boe/d</i> )       |   | <b>561 boe/d</b>      |
|                                   | <i>(\$/boe)</i>   | <i>(\$ thousands)</i> |
| Petroleum and natural gas revenue | 65.52   | \$ 992                |
| Royalties                         | (5.75)  | (87)                  |
| Production and operating expenses | (7.78)  | (118)                 |
| Transportation costs              | (5.73)  | (87)                  |
| <b>Total operating netback</b>    | <b>46.26</b>  | <b>\$ 700</b>         |

<sup>(1)</sup> Reflects activity from incorporation on July 12, 2021 and operating results from September 3, 2021 the effective date of the Arrangement, to September 30, 2021.

Rubellite's operating netback of \$0.7 million (\$46.26/boe) in the period from September 3, 2021 to September 30, 2021 was based on realized revenue of \$0.9 million (\$65.50/boe) driven by strong oil prices, with WTI benchmark prices of \$71.54 USD/bbl for the period.

During the third quarter of 2021, Rubellite's results were impacted by significant one-time transaction costs relating to the acquisition of the Clearwater Assets and a shorter operating period reflective of 27 days of operations.

## General and administrative

General and administrative expenses consist primarily of salaries and benefits, legal fees, information systems, and audit, reserves and tax related fees. One-time transaction costs of \$0.4 million were recorded relating to the acquisition. Rubellite has entered into a Management Services Agreement ("MSA") with Perpetual whereby Rubellite received technical and administrative services for payment to Perpetual on a cost recovery basis.

## Operations update

As at November 9, 2021, Rubellite currently has seventeen (16.0 net) multi-lateral wells drilled, including the six (6.0 net) original wells drilled by Perpetual at Ukalta and the one (1.0 net) producing 2.5 leg multi-lateral well at Figure Lake. New wells that have been drilled, completed and commenced production since Rubellite's inception in July 2021 include two (1.0 net) wells at Marten Hills which were rig released in mid-July and four (4.0 net) producing wells at Figure Lake. The first four (4.0 net) wells of the planned eight well drilling program at Ukalta have been drilled and completed and three have recently initiated load oil recovery and testing operations. Sales production is expected to ramp up as these new wells fully recover load oil from the drilling process, which is recycled for future drilling operations to the extent possible, and production volumes commence delivery to sales terminals.

At Marten Hills, sales production commenced in late August after fully recovering load oil from drilling operations. Rubellite is pleased to report that the two, eight leg multi-lateral wells continue to have average performance consistent with Rubellite's Marten Hills type curve, with an average IP30 production level of approximately 120 bbl/d of 22° API crude oil for the two wells. An additional 4 (2.0 net) follow up wells are scheduled to be drilled in the first quarter of 2022.

At Rubellite's Figure Lake property, the first two (2.0 net) exploratory wells at the south end of the property each penetrated over 8,000 meters of Clearwater reservoir, were brought onstream August 26, 2021 and began producing formation oil for sales after a three-week period of load oil recovery. Rubellite is excited to announce that the two, multi-lateral wells have averaged performance consistent with Rubellite's Figure Lake type curve, at an average IP30 production level of approximately 120 bbl/d of conventional heavy crude oil. Based on these results to date, Rubellite has procured a second drilling rig to follow up on this exploration success, with spud expected in mid-November, adding four new wells to the existing south Figure Lake pad by mid-January 2022. Additional production volumes from this accelerated program will not contribute materially to fourth quarter 2021 production levels but will serve to accelerate the ramp up of production volumes in the first quarter of 2022.

At the extreme north end of the Figure Lake land base, two additional exploratory multi-lateral wells were drilled over 10 miles north of the south Figure Lake pad site. These two wells have recovered load oil from drilling operations and have recently begun producing formation oil. Initial early production results are below the performance curve of the south Figure Lake wells. Rubellite will continue to monitor production data and re-evaluate performance expectations before any follow up drilling occurs in the north Figure Lake area.

At Ukalta, one (1.0 net) six-leg multi-lateral exploratory well at the southwest edge of the property, targeting a new geologic zone within the Clearwater, was drilled off a single well pad and the first well of the seven (7.0 net) multi-lateral well development drilling program across two pads, primarily targeting development of the main proven Clearwater sand target, was spud prior to the end of the quarter. Since the end of the third quarter, three of four (4.0 net) wells on the first of two development pad sites have been successfully drilled and rig released, and load oil recovery has commenced.

Drilling costs, net of forecast oil-based mud recoveries, are on track and showing continuous improvement as expected with the increased scale of activity and continuity of operations. The Company is also working to reduce time lags for production start-up on multi-well pads by utilizing the drilling rig for completion operations and setting up pads for concurrent drilling and production operations, thereby improving capital efficiencies and accelerating economic returns.

## Outlook

Rubellite's Board of Directors has approved fourth quarter 2021 capital expenditures of \$16 to \$18 million, an increase of \$6 to \$8 million from previous guidance released September 7, 2021. Expenditures in the fourth quarter will be largely directed to the drilling, completion and equipping of the seven (7.0 net) planned development wells at Ukalta and three (3.0 net) of the accelerated four (4.0 net) well program following up the successful exploration results in the south Figure Lake area. A combination of six and eight leg multi-lateral well designs are planned to continue to evaluate opportunities to improve capital efficiencies. The Figure Lake drilling program will be partially funded by the previously announced Figure Lake GORR financing, which provided 100% of the funding for the four wells drilled at Figure Lake during the third quarter and will provide approximately \$0.2 million per well for the next 12 wells in Figure Lake area. Additional capital spending is also expected for preparatory work for first quarter 2022 activities in the Ukalta area.

The procurement of the second drilling rig will also accelerate some of Rubellite's previously planned 2022 activity into the first quarter of 2022. The table below details Rubellite's anticipated capital spending and drilling activities for the fourth quarter of 2021 and first quarter of 2022.

### *Fourth Quarter 2021 and First Quarter 2022 Exploration and Development Forecast Capital Expenditures <sup>(1)</sup>*

|                            | <b>Q4 2021</b><br><b>(\$ millions)</b> | <b># of wells</b><br><b>(gross/net)</b> | <b>Q1 2022</b><br><b>(\$ millions)</b> | <b># of wells</b><br><b>(gross/net)</b> |
|----------------------------|--|---|--|---|
| Marten Hills               |  | -/-                                     |  | 4/2.0                                   |
| Figure Lake <sup>(2)</sup> |  | 3/3.0                                   |  | 1/1.0                                   |
| Ukalta                     |  | 7/7.0                                   |  | 6/6.0                                   |
| <b>Total<sup>(3)</sup></b> | <b>\$16 - \$18</b>                     | <b>10/10.0</b>                          | <b>\$10 - \$12</b>                     | <b>11/9.0</b>                           |

<sup>(1)</sup> Third quarter 2021 capital spending on Rubellite's Clearwater Assets was commensurate with the third quarter component of H2 2021 guidance dated September 7, 2021.

<sup>(2)</sup> The Figure Lake GORR financing is forecast to contribute \$0.6 million in Q4 2021 and \$0.2 million in Q1 2022 to fund Figure Lake drilling activities.

<sup>(3)</sup> Excludes undeveloped land purchases and acquisitions, if any.

Development drilling activity across Rubellite's three operating areas is forecast to drive rapid production growth. With wells drilled at Ukalta beginning to contribute to reported sales volumes in early December, Rubellite forecasts Q4 2021 average daily production of approximately 650 to 700 bbl/d. Production sales volumes will ramp up significantly through year end 2021 and into early 2022 and are expected to reach in excess of 2,000 bbl/d during the first quarter of 2022. The Company expects to update full year 2022 guidance after stabilized production results from the ongoing Ukalta and Figure Lake drilling programs have been established. Rubellite also plans to continue exploration activities to pursue additional prospective land capture and de-risk acreage.

In the context of current strip pricing, Rubellite's organic growth business plan is expected to be fully funded, drive material adjusted funds flow growth over the next two years and generate free funds flow by 2022.

## Impairment

In accordance with IFRS, the Company is required to assess when internal or external indicators of impairment exist, and impairment testing is required. At September 30, 2021, the Company conducted an assessment of indicators of impairment for the Company's cash-generating unit ("CGU"). In performing the assessment, management determined there were no indicators of impairment.

E&E assets are tested for impairment when internal or external indicators of impairment or impairment reversal exist as well as upon their eventual reclassification to oil and natural gas properties in PP&E. At September 30, 2021, 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.

## Equity

At September 30, 2021 there were 2.1 million Rubellite shares outstanding, 16.75 million warrants, 25.0 million subscription receipts and 4.0 million Share Purchase Warrants. On October 5, 2021, all components of the Financing closed concurrently, raising \$83.5 million in equity, all priced at \$2.00 per share, and resulting in the issuance of approximately 41.7 million Rubellite Shares.

At November 9, 2021 there were 43.8 million Rubellite shares outstanding. In addition, 5.1 million common shares are potentially issuable on a fully diluted basis, including 4.0 million common shares related to the Share Purchase Warrants issued to Perpetual at \$3.00 per share exercise price and valued at \$2.0 million as a component of the consideration for the acquisition of the Clearwater Assets.

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

| <i>(millions)</i>       | <b>November 9, 2021</b> |
|-------------------------|-------------------------|
| Restricted share units  | 203                     |
| Share options           | 756                     |
| Performance share units | 185                     |
| <b>Total</b>            | <b>1,144</b>            |

## Commodity price risk management

As at November 9, 2021, the Company entered into the following swap commodity contracts:

| Commodity | Volumes sold<br>( <i>bb/d</i> ) | Term                  | Reference/<br>Index        | Contract Traded<br>Bought/sold | Average Price<br>( <i>CAD\$/bb</i> ) |
|-----------|---------------------------------|-----------------------|----------------------------|--------------------------------|--------------------------------------|
| Crude Oil | 200                             | Nov 1 – Dec 31, 2021  | WTI ( <i>CAD\$/bb</i> )    | Swap - sold                    | \$100.45                             |
| Crude Oil | 200                             | Nov 1 – Dec 31, 2021  | WTI ( <i>CAD\$/bb</i> )    | Swap - sold                    | \$101.25                             |
| Crude Oil | 200                             | Jan 1 – June 30, 2022 | WCS FP ( <i>CAD\$/bb</i> ) | Swap - sold                    | \$75.30                              |
| Crude Oil | 200                             | Jan 1 – Dec 31, 2022  | WCS FP ( <i>CAD\$/bb</i> ) | Swap - sold                    | \$76.15                              |

## OFF BALANCE SHEET ARRANGEMENTS

Rubellite has no off balance sheet arrangements.

## RELATED PARTY TRANSACTIONS

For the period from incorporation on July 12, 2021 and operating results from September 3, 2021, the effective date of the Arrangement, to September 30, 2021, Rubellite had no transactions with related parties, except those pertaining to contributions to Rubellite's long-term incentive plans and payments made under the management services agreement with Perpetual.

## CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a regular basis. The emergence of new information and changed circumstances may result in actual results or changes to estimates that differ materially from current estimates. The Company's use of estimates and judgments in preparing the interim financial statements is discussed in note 2 of the interim financial statements as at September 30, 2021.

## CORPORATE GOVERNANCE

The Corporation is committed to maintaining high standards of corporate governance.

## FORWARD-LOOKING INFORMATION AND STATEMENTS

Certain information and statements contained in this MD&A including management's assessment of future plans and operations, and including the information contained under the heading "Third Quarter Financial and Operating Results – Outlook" may constitute forward-looking information and statements (together, "forward-looking information") within the meaning of applicable securities laws. This forward-looking information relates to future events or to future performance. All statements other than statements of historical fact may be forward-looking information. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe", "outlook", "guidance", "objective", "plans", "intends", "targeting", "could", "potential", "strategy" and any similar expressions are intended to identify forward-looking information and statements.

The forward-looking information includes, without limitation, statements with respect to: the expected ability of the Company to fund its future drilling and development programs and expected growth in shareholder value; the characteristics and plans in respect of the Clearwater Assets; the Company's drilling plans for the remainder of 2021 and 2022 and the benefits to be derived from such drilling including the production growth and ability for the business plan to be fully funded; anticipated adjusted funds flow growth and the timing for free funds flow; the plans to pursue additional prospective land and de-risk existing acreage, including the delineation of exploratory lands that have been secured in the West Dawson and Cadotte areas; the funding contribution related to drilling commitments in connection with the Figure Lake GORR financing; 2022 average production levels; expectations respecting Rubellite's future exploration, development and drilling activities; the expected initial working capital and debt of Rubellite; the anticipated focus of Rubellite's business plan and other similar statements. Forward-looking information is based on current expectations, estimates and projections that involve a number of known and unknown risks, which could cause actual results to vary and in some instances to differ materially from those anticipated by Rubellite and described in the forward-looking information contained in this MD&A. In particular and without limitation of the foregoing, material factors or assumptions on which the forward-looking information in this MD&A is based include: the ability of Rubellite to successfully operate the Clearwater Assets; forecast commodity prices and other pricing assumptions; forecast production volumes based on business and market conditions; foreign exchange rates; near-term pricing and continued volatility of the market; estimates of quantities of crude oil from properties and other sources not currently classified as proved; accounting estimates and judgments; future use and development of technology and associated expected future results; the ability to obtain regulatory approvals; the successful and timely implementation of capital projects; ability to generate sufficient cash flow to meet current and future obligations; estimated abandonment and reclamation costs, including associated levies and regulations applicable thereto; Rubellite's ability to operate under the management of Perpetual pursuant to the management services agreement; the ability of Rubellite to obtain and retain qualified staff and equipment in a timely and cost-efficient manner, as applicable; the retention of key properties; forecast inflation and other assumptions inherent in Rubellite's current guidance and estimates; the continuance of existing tax, royalty, and regulatory regimes; the accuracy of the estimates of reserves volumes; ability to access and implement technology necessary to efficiently and effectively operate assets; and the ongoing and future impact of the coronavirus on commodity prices and the global economy, among others. Undue reliance should not be placed on forward-looking information, which is not a guarantee of performance and is subject to a number of risks or uncertainties, including without limitation those described herein and under "Risk Factors" in Perpetual's Management Information Circular dated August 4, 2021 and in other reports on file with Canadian securities regulatory authorities which may be accessed through the SEDAR website

(www.sedar.com). Readers are cautioned that the foregoing list of risk factors is not exhaustive. Forward-looking information is based on the estimates and opinions of Rubellite's management at the time the information is released, and Rubellite disclaims any intent or obligation to update publicly any such forward-looking information, whether as a result of new information, future events or otherwise, other than as expressly required by applicable securities law.

## **OIL AND GAS METRICS**

This MD&A contains certain oil and gas metrics which do not have standardized meanings or standard methods of calculation and therefore such measures may not be comparable to similar measures used by other companies and should not be used to make comparisons. Such metrics have been included in this document to provide readers with additional measures to evaluate Rubellite's performance; however, such measures are not reliable indicators of Rubellite's future performance and future performance may not compare to Rubellite's performance in previous periods and therefore such metrics should not be unduly relied upon.

## **INITIAL PRODUCTION RATES**

Any references in this MD&A to initial production rates are useful in confirming the presence of hydrocarbons; however, such rates are not determinative of the rates at which such wells will continue production and decline thereafter and are not necessarily indicative of long-term performance or ultimate recovery. While encouraging, readers are cautioned not to place reliance on such rates in calculating the aggregate production for the Company. Such rates are based on field estimates and may be based on limited data available at this time.



**RUBELLITE ENERGY INC.**  
**Condensed Interim Statements of Financial Position**  
**(unaudited)**

|   |                    |
|---|--------------------|
| As at   | September 30, 2021 |
| <i>(Cdn\$ thousands)</i>                                  |                    |
| <b>Assets</b>   |                    |
| Current assets  |                    |
| Cash and cash equivalents                                 | \$ 4,153           |
| Restricted cash (note 4)                                  | 50,000             |
| Accounts receivables and prepaids                         | 2,089              |
|   | 56,242             |
| Property, plant and equipment (note 4,5)                  | 56,888             |
| Exploration and evaluation (note 4,6)                     | 10,094             |
| Deferred tax asset (note 4)                               | 9,146              |
| Total assets  | \$ 132,370         |
| <b>Liabilities</b>  |                    |
| Current liabilities                                       |                    |
| Accounts payable and accrued liabilities                  | \$ 7,116           |
| Subscription receipts and non-brokered placement (note 4) | 50,000             |
| Promissory Notes (note 4)                                 | 59,373             |
|   | 116,489            |
| Decommissioning obligations (note 4,7)                    | 763                |
| Total liabilities   | 117,252            |
| <b>Equity</b>   |                    |
| Share capital (note 4,8)                                  | 4,141              |
| Share purchase warrants (note 4,8)                        | 2,000              |
| Contributed surplus (note 9)                              | 10                 |
| Retained earnings   | 8,967              |
| Total equity  | 15,118             |
| Total liabilities and equity                              | \$ 132,370         |
| Subsequent events (note 4, 12)                            |                    |

See accompanying notes to the condensed interim financial statements.



**Holly Benson**  
Director



**Bruce Shultz**  
Director

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

For the period ended  
September 30, 2021<sup>(1)</sup>

*(Cdn\$ thousands, except per share amounts)*

|   |    |              |
|---|----|--------------|
| Revenue   |    |              |
| Oil and natural gas (note 10)                               | \$ | 992          |
| Royalties   |    | (87)         |
|   |    | 905          |
| Expenses  |    |              |
| Production and operating                                    |    | 118          |
| Transportation  |    | 87           |
| General and administrative                                  |    | 192          |
| Transaction costs (note 4)                                  |    | 382          |
| Share based payments (note 9)                               |    | 10           |
| Finance – accretion of decommissioning liabilities (note 7) |    | 1            |
| Depletion (note 5)  |    | 294          |
| Gain related to deferred tax on acquisition (note 4)        |    | (9,146)      |
| <b>Net income and comprehensive income</b>                  |    | <b>8,967</b> |

**Net income per share (note 8)**

|         |    |       |
|---------|----|-------|
| Basic   | \$ | 12.34 |
| Diluted | \$ | 5.16  |

<sup>(1)</sup> Reflects activity from incorporation on July 12, 2021 and operating results from September 3, 2021, the effective date of the Arrangement, to September 30, 2021.

See accompanying notes to the condensed interim financial statements.

**RUBELLITE ENERGY INC.**  
**Condensed Interim Statements of Changes in Equity**  
**(unaudited)**

|   | Share capital |                 | Share purchase warrants | Contributed surplus | Retained earnings | Total Equity     |
|---|---------------|-----------------|-------------------------|---------------------|-------------------|------------------|
|   | (thousands)   | (\$thousands)   |                         |                     |                   |                  |
| <i>(Cdn\$ thousands, except share amounts)</i>    |               |                 |                         |                     |                   |                  |
| Net income  | –             | \$ –            | \$ –                    | \$ –                | \$ 8,967          | \$ 8,967         |
| Issued pursuant to plan of arrangement (note 4,8) | 2,128         | 4,141           | 2,000                   |                     |                   | 6,141            |
| Share-based payments (note 9)                     | –             | –               | –                       | 10                  | -                 | 10               |
| <b>Balance at September 30, 2021</b>              | <b>2,128</b>  | <b>\$ 4,141</b> | <b>\$ 2,000</b>         | <b>\$ 10</b>        | <b>\$ 8,967</b>   | <b>\$ 15,118</b> |

<sup>(1)</sup> Reflects activity from incorporation on July 12, 2021 and operating results from September 3, 2021, the effective date of the Arrangement, to September 30, 2021.

See accompanying notes to the condensed interim financial statements. Sdrfg – sdf

**RUBELLITE ENERGY INC.**  
**Condensed Interim Statements of Cash Flows**  
**(unaudited)**

For the period ended  
September 30, 2021<sup>(1)</sup>

(Cdn\$ thousands)

**Cash flows from operating activities**

|   |    |          |
|---|----|----------|
| Net income  | \$ | 8,967    |
| Adjustments to add (deduct) non-cash items:                 |    |          |
| Depletion (note 5)  |    | 294      |
| Share-based payments (note 9)                               |    | 10       |
| Gain on acquisition associated with deferred tax            |    | (9,146)  |
| Finance - accretion on decommissioning obligations (note 7) |    | 1        |
| Change in non-cash working capital                          |    | (126)    |
| <b>Net cash flows from operating activities</b>             |    | <b>–</b> |

**Cash flows used in investing activities**

|  |           |              |
|--|-----------|--------------|
| Capital expenditures (note 5, 6)                   |           | (178)        |
| Cash from acquisitions (note 4)                    |           | 4,051        |
| Change in non-cash working capital                 |           | 280          |
| <b>Net cash flows used in investing activities</b> |           | <b>4,153</b> |
| Change in cash and cash equivalents                |           | 4,153        |
| Cash and cash equivalents, beginning of period     |           | –            |
| <b>Cash and cash equivalents, end of period</b>    | <b>\$</b> | <b>4,153</b> |

<sup>(1)</sup> Reflects activity from incorporation on July 12, 2021 and operating results from September 3, 2021, the effective date of the Arrangement, to September 30, 2021.

See accompanying notes to the condensed interim financial statements.

## **RUBELLITE ENERGY INC.**

### **Notes to the Condensed Interim Financial Statements (unaudited)**

*Reflects activity from incorporation on July 12, 2021 and operating results from September 3, 2021, the effective date of the Arrangement, to September 30, 2021*

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

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#### **1. REPORTING ENTITY**

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

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

The condensed interim financial statements of the Company as at September 30, 2021 and reflect activity from incorporation on July 12, 2021 and operating results for the period from September 3, 2021, the effective date of the Plan of Arrangement involving Perpetual Energy Inc. ("Perpetual"), the shareholders of Perpetual and Rubellite, to September 30, 2021.

#### **Material transactions**

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

All of Perpetual's Clearwater lands, wells, roads and facilities in northeast Alberta (the "Clearwater Assets") were acquired by Rubellite. Third quarter operating results reflect the period from September 3, 2021, the effective date of the completion of the Arrangement, to September 30, 2021. The Clearwater assets were acquired from Perpetual for aggregate consideration of \$65.5 million. The consideration consists of promissory notes totaling \$59.4 million, which were paid in cash on October 5, 2021, the issuance of 680,485 Rubellite common shares valued at \$1.3 million, the return of the 8.2 million Perpetual common shares valued at \$2.8 million and issuance of warrants to purchase 4.0 million Rubellite common shares at a price of \$3.00 per share for a period of five years, valued at \$2.0 million (refer to Note 4).

Rubellite undertook to complete a series of financings (the "Rubellite Financings") at \$2.00 per Rubellite common share equivalent as follows:

- (i) a backstopped Arrangement Warrant financing, which closed on October 5, 2021 and resulted in the issuance of 16.7 million Rubellite common shares for total proceeds of \$33.5 million;
- (ii) a non-brokered \$20 million private placement financing (10 million Rubellite common shares) that closed on October 5, 2021 with cash held in trust on September 30, 2021. The cash received is presented as restricted cash with a current non-brokered placement payable on the statement of financial position as at September 30, 2021. On October 5, 2021, the cash was released from trust and the non-brokered placement payable transferred to share capital as the 10 million common shares of Rubellite were issued; and
- (iii) a brokered \$30.0 million subscription receipt financing (15 million subscription receipts) that closed on July 13, 2021 with cash held in escrow by a third-party trustee that was released on October 5, 2021. On October 5, 2021, each subscription receipt issued was exchanged on a one-to-one basis for 15 million common shares of Rubellite. The cash received is presented as restricted cash with a current subscription receipt payable on the statement of financial position as at September 30, 2021.

#### **2. BASIS OF PREPARATION**

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and in accordance with IAS 34 Interim Financial Reporting.

These condensed interim financial statements of the Company were approved and authorized for issue by the Board of Directors on November 9, 2021.

##### **a) Basis of measurement**

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

##### **b) Critical accounting judgments and significant estimates**

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenue and expenses. These judgments, estimates, and assumptions are continuously evaluated and are based on management's experience and all relevant information available to the Company at the time of financial statement preparation. As the effect of future events cannot be determined with certainty, the actual results may differ

from estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about the critical judgments and significant estimates made by management are described below and in the relevant notes to the financial statements.

### **c) Critical accounting judgments:**

The following are the critical judgments that management has made in the process of applying the Company's accounting policies. These judgments have the most significant effect on the amounts reported in the financial statements.

#### Cash-generating units ("CGUs")

The Company allocates its oil and gas properties 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.

#### 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.

#### Componentization

For the purposes of depletion, the Company allocates its oil and gas assets to components with similar useful lives and depletion methods. The grouping of assets is subject to management's judgment and is performed on the basis of geographical proximity and similar reserve life. The Company's oil and gas assets are depleted on a unit-of-production basis.

#### 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 oil and gas properties.

#### 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.

#### Deferred taxes

Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. 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. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

#### Revenue – principal versus agent

When determining if the Company acted as a principal or as an agent in transactions, management determines if the Company obtains control of the product. As part of this assessment, management considered if the Company obtained control of the goods or services more than momentarily, in advance of transferring those goods or services to the customer. In this assessment, the Company considered indicators that it controlled the goods or services, including whether the Company was primarily responsible for the goods and services, whether the Company had inventory risk and whether the Company had discretion in establishing prices for the goods or services. Where

control was indicated, the Company has been determined to be the principal and has recorded revenue and the associated expenses on a gross basis. In other cases, the Company has been determined to be the agent and has recorded revenue net of associated expenses.

#### Business Combinations

Judgement is required to determine whether an acquisition constitutes a business for purposes of IFRS and in determining the acquisition date.

#### **d) Significant estimates:**

The following assumptions represent the key sources of estimation uncertainty at the end of the reporting period. As future confirming events occur, the actual results may differ from estimated amounts.

##### i) Reserves

The Company uses estimates of proved and probable oil and gas reserves in the calculation of depletion and also for value in use ("VIU") and fair value less costs of disposal ("FVLCD") calculations of non-financial assets in addition to valuing oil and gas properties in a business combination. Estimates of economically recoverable oil, gas, and NGL reserves and their related cash flows are based upon a number of significant assumptions, such as forecasted production volumes, 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 oil and gas properties, 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 oil and gas properties. This evaluation of proved and proved plus probable oil and gas reserves is prepared in accordance with the reserve definitions contained in National Instrument 51-101 and the COGE Handbook.

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

##### ii) Business combinations

In a business combination, management makes estimates of the acquisition-date fair value of assets acquired and liabilities assumed which includes assessing the estimated fair value of petroleum and natural gas properties (included in property, plant and equipment) derived from estimated recoverable quantities of proved and probable oil and gas reserves and the related cash flows being acquired.

##### iii) Provisions for decommissioning obligations

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

##### iv) Derivative financial instruments

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

##### v) Share-based payments

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

### 3. SIGNIFICANT ACCOUNTING POLICIES

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

#### a) Business combinations

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

#### b) Financial instruments

Financial instruments comprise cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, subscription receipt and non-brokered placement payable and promissory notes. These financial instruments are recognized initially at fair value, net of any directly attributable transaction costs.

##### i) Classification and measurement of financial assets

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

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

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

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

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

##### a) Financial assets at FVTPL

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

##### b) Financial assets at amortized cost

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

##### ii) Classification and measurement of financial liabilities

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

The Company has classified cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, subscription receipts and non-brokered placement payable, and promissory notes as amortized cost.

##### iii) Share capital and warrants

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



### **c) Jointly owed assets**

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

### **d) Property, plant and equipment ("PP&E")**

#### **i) Production and development costs**

Items of property, plant and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. The initial cost of property, plant and equipment includes the purchase price or construction costs, costs that are directly attributable to bringing the asset into commercial operations, the initial estimate of decommissioning costs, and borrowing costs for qualifying assets.

Significant parts of an item of property, plant and equipment, including oil and gas properties, that have different useful lives from the life of the area or facility in general, are accounted for as separate items.

Gains and losses on disposition of an item of property, plant and equipment, including oil and gas properties, are determined by comparing the proceeds from disposition with the carrying amount of property, plant and equipment and are recognized in net profit or loss. Proceeds may include cash, or other non-cash consideration such as retained drilling rights which are fair valued at the time of disposition. The carrying amount of any replaced or disposed item of property, plant and equipment is derecognized.

#### **ii) Subsequent costs**

Costs incurred after the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as property, plant and equipment only when they increase the future economic benefits embodied in the specific asset to which they relate. Such capitalized property, plant and equipment generally represent costs incurred in developing proved and/or probable oil and gas reserves and bringing on or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. All other expenditures including the costs of the day-to-day servicing of property, plant and equipment are recognized as production and operating expense in net profit or loss as incurred.

#### **iii) Depletion and depreciation**

The net carrying amount of development or production assets is depleted 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, considering estimated future development costs necessary to bring those reserves into production and future decommissioning costs. The 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 in net profit or loss as incurred.

E&E costs, consisting of the costs of acquiring oil and gas licenses, are capitalized initially as E&E assets according to the nature of the assets acquired. Costs associated with drilling exploratory wells in an undeveloped area are capitalized as E&E costs. The costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability. When technical feasibility and commercial viability are determined, the relevant expenditure is transferred to property, plant and equipment as oil and gas properties, after impairment is assessed and any applicable impairment loss is recognized in net profit or loss.

The Company's E&E assets consist of undeveloped lands. Gains and losses on disposition of E&E assets are determined by comparing the proceeds from disposition with the carrying amount and are recognized in net profit or loss.

### **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.

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

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

#### **ii) Non-financial assets**

The carrying amounts of the Company's non-financial assets, other than E&E assets, are reviewed at each period end date to determine whether there are any internal or external indicators of impairment or impairment reversal. If any such indicator exists, then the recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together at a CGU level. The estimated recoverable amount of an asset or a CGU is determined based on the higher of its FVLCD and its VIU. FVLCD is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The FVLCD of oil and gas properties is generally determined as the net present value of estimated future cash flows expected to arise from the continued use of the CGU and its eventual disposition, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU. In determining VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. VIU is generally the future cash flows expected to be derived from production of proved and probable oil and gas reserves estimated by the Company's independent third-party reserve evaluators.

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

E&E assets are assessed for impairment 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 oil and gas properties 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 statement of loss and comprehensive loss, 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 statement of financial position date, using a risk-free interest rate not adjusted for credit risk. Subsequent to the initial measurement, the obligation is adjusted at the end of each reporting period to reflect the passage of time, changes in the timing and estimate of future cash flows underlying the obligation, and changes in the risk-free rate. The accretion of the provision due to the passage of time is recognized in net loss whereas changes in the provision arising from changes in estimated cash flows or changes in the risk-free rate are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

#### **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 net income or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the period end date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the period end date. Deferred tax assets and liabilities are offset if there

is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. 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) Income or loss per share amounts**

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

Diluted income per share is calculated giving effect to the potential dilution that would occur if outstanding warrants, share options, restricted rights or performance share rights 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 rights and performance share rights. 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.

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

On September 3, 2021, the effective date of the Plan of Arrangement, Rubellite became a standalone public entity and began trading on the Toronto Stock Exchange on September 9, 2021. The Clearwater assets were acquired from Perpetual for aggregate consideration of \$65.5 million. The consideration consists of promissory notes totalling \$59.4 million, which were paid in cash on October 5, 2021, the issuance of 680,485 Rubellite common shares valued at \$1.3 million, the return of the 8.2 million Perpetual common shares valued at \$2.8 million and issuance of warrants to purchase 4.0 million Rubellite common shares at a price of \$3.00 per share for a period of five years, valued at \$2.0 million.

The acquisition 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 the estimated fair value on September 3, 2021. There were \$0.4 million of transaction costs incurred by the Company and expensed through earnings. Under the Plan of Arrangement, Rubellite entered into a Management Services Agreement with Perpetual. Under this agreement, Perpetual receives payment for certain technical and administrative services provided to Rubellite on a cost recovery basis.

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

|                                   | <b>Total</b>     |
|-----------------------------------|------------------|
| <b>Net assets acquired:</b>       |                  |
| Oil and natural gas interests     | \$ 56,489        |
| Exploration and evaluation assets | 10,067           |
| Cash                              | 4,051            |
| Net working capital               | (4,873)          |
| Decommissioning provisions        | (220)            |
| <b>Net assets acquired</b>        | <b>\$ 65,514</b> |

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

## Purchase consideration:

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

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

<sup>(2)</sup> Promissory notes assumed by Rubellite from Perpetual and owing to 1974918 Alberta Ltd. ("197Co"), a company controlled by Perpetual's President and Chief Executive Officer. These promissory notes are secured by certain Clearwater properties, and due on demand, and were settled in cash on October 5, 2021.

<sup>(3)</sup> Rubellite issued to Perpetual 680,485 Rubellite Shares valued at \$1.3 million.

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

<sup>(5)</sup> Represents the estimated value of 4.0 million Rubellite common share purchase warrants at \$3.00 per share exercise price and valued at \$2.0 million. Share purchase warrants have been valued using the Black Scholes model using the following assumptions: Expected volatility of 40%, risk-free interest rate of 1.2%, dividend yield of nil, contractual life of 5-years, share price at grant date of \$2.00 and exercise price of \$3.00.

The above amounts to determine the net assets acquired are estimates, which were made by management at the time of preparation of these condensed interim financial statements based on information then available. The fair value of property, plant and equipment and exploration and evaluation assets has been estimated with reference to an internally prepared reserves and land evaluation for the acquired properties based on independent third party reports. The estimated proved and probable oil and natural gas reserves and related cash flows were discounted at a rate based on what a market participant would have paid as well as market metrics in the prevailing areas at the time. The fair value of decommissioning obligations was initially estimated using a credit adjusted risk-free rate of 6.0% and an implied inflation rate of 1.73%.

In conjunction with the Plan of Arrangement, the Company undertook the following financing activities (Rubellite Financings):

- iv) a backstopped Arrangement Warrant financing, which closed on October 5, 2021 and resulted in the issuance of 16.7 million Rubellite common shares for total proceeds of \$33.5 million;
- v) a non-brokered \$20 million private placement financing (10 million subscription receipts) that closed on October 5, 2021. The cash received is presented as restricted cash with a current non-brokered placement payable on the statement of financial position as at September 30, 2021. On October 5, 2021, the cash was released from trust and the non-brokered placement payable transferred to share capital as the 10 million common shares of Rubellite were issued; and
- vi) a brokered \$30.0 million subscription receipt financing (15 million subscription receipts) that closed on July 13, 2021 with cash held in escrow by a third-party trustee that was released on October 5, 2021. On October 5, 2021, each subscription receipt issued was exchanged on a one-to-one basis for 15 million common shares of Rubellite. The cash received is presented as restricted cash with a current subscription receipt payable on the statement of financial position as at September 30, 2021.

All Rubellite Financings were completed at \$2.00 per Rubellite common share equivalent and closed October 5, 2021.

## 5. PROPERTY, PLANT AND EQUIPMENT

|  | <b>Oil and Gas<br/>Properties</b> |
|--|-----------------------------------|
| <b>Cost</b>  |                                   |
| Acquisitions (note 4)  | \$ 56,489                         |
| Change in decommissioning obligations related to PP&E (note 7) | 542                               |
| Additions  | 151                               |
| <b>September 30, 2021</b>                                      | <b>\$ 57,182</b>                  |
| <b>Accumulated depletion and impairment</b>                    |                                   |
| Depletion  | \$ (294)                          |
| <b>September 30, 2021</b>                                      | <b>\$ (294)</b>                   |
| <b>Carrying amount</b>   |                                   |
| <b>September 30, 2021</b>                                      | <b>\$ 56,888</b>                  |

As at September 30, 2021, future development costs of \$42.3 million associated with proved and probable oil and natural gas reserves were included in the depletion calculation.

### a) Cash-generating units and impairment

In accordance with IFRS, the Company is required to assess when internal or external indicators of impairment exist, and impairment testing is required. At September 30, 2021, the Company conducted an assessment of indicators of impairment for the Company's cash-generating unit ("CGU"). In performing the assessment, management determined there were no indicators of impairment.

## 6. EXPLORATION AND EVALUATION

|                               | September 30, 2021 |
|-------------------------------|--------------------|
| Acquisitions (note 4)         | \$ 10,067          |
| Additions                     | 27                 |
| <b>Balance, end of period</b> | <b>\$ 10,094</b>   |

### *Impairment of E&E assets*

E&E assets are tested for impairment when internal or external indicators of impairment or impairment reversal exist as well as upon their eventual reclassification to oil and natural gas properties in PP&E. At September 30, 2021, 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:

|  | September 30, 2021 |
|--|--------------------|
| Obligations incurred                     | \$ 46              |
| Obligations acquired (note 4)            | 220                |
| Change in rate on acquisition            | 496                |
| Accretion                                | 1                  |
| <b>Total decommissioning obligations</b> | <b>\$ 763</b>      |

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

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

The change in rate on acquisition reflects the impact of discounting the decommissioning obligation at the credit adjusted discount rate of 6% at the time of acquisition and then adjusting to the risk-free rate thereafter.

The following significant assumptions were used to estimate the Company's decommissioning obligations:

|   | September 30, 2021 |
|---|--------------------|
| Undiscounted obligations                | \$ 815             |
| Average risk-free rate                  | 1.98%              |
| Inflation rate                          | 1.73%              |
| Expected timing of settling obligations | 25 years           |

## 8. SHARE CAPITAL

### a) Authorized

Authorized capital consists of an unlimited number of common shares.

### b) Issued and outstanding

|   | Shares<br>(thousands) | September 30, 2021<br>Amount<br>(\$thousands) |
|---|-----------------------|---|
| Balance, July 12, 2021                          | -                     | \$ -  |
| Issued pursuant to plan of arrangement (note 4) | 2,128                 | 4,141   |
| <b>Balance, September 30, 2021</b>              | <b>2,128</b>          | <b>\$ 4,141</b>                               |

As of September 30, 2021, there were 4.0 million Rubellite common share purchase warrants exercisable at \$3.00 per share with an expiry date of September 3, 2026. In addition, there were 16.7 million arrangement warrants exercisable at \$2.00 per share that were exercised on October 5, 2021.

### c) Per share information

For the period ended  
September 30, 2021<sup>(1)</sup>  
**2021**

|  |                 |
|--|-----------------|
| <i>(thousands, except per share amounts)</i>         |                 |
| Net income   | <b>\$ 8,967</b> |
| Weighted average common shares outstanding – basic   | <b>726</b>      |
| Weighted average common shares outstanding – diluted | <b>1,739</b>    |
| Net income (loss) per share – basic                  | <b>\$ 12.34</b> |
| Net income (loss) per share – diluted                | <b>5.16</b>     |

Per share amounts have been calculated using the weighted average number of common shares outstanding. For the period ended September 30, 2021, 28.1 million common shares issuable upon the exercise and/or settlement of arrangement warrants, share options, restricted share units and performance share units were included in the diluted weighted average number of common shares outstanding.

### 9. SHARE-BASED PAYMENTS

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

#### Compensation awards

| <i>(thousands)</i>          | Share options | Performance share units | Restricted share units | Total        |
|-----------------------------|---------------|-------------------------|------------------------|--------------|
| Granted – September 8, 2021 | 744           | 185                     | 195                    | 1,124        |
| <b>September 30, 2021</b>   | <b>744</b>    | <b>185</b>              | <b>195</b>             | <b>1,124</b> |

During the period ended September 30, 2021, the Company granted 1.1 million share-based payment awards, comprised of share options, performance share units and restricted share units.

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

|                                    | <b>September 30, 2021</b> |
|------------------------------------|---------------------------|
| Share options                      | <b>\$ 5</b>               |
| Restricted share units             | <b>3</b>                  |
| Performance share units            | <b>2</b>                  |
| <b>Share-based payment expense</b> | <b>\$ 10</b>              |

#### a) Share options

Rubellite's share option plan provides a long-term incentive to executive officers and directors 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, with expiry occurring five years after issuance.

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

|  | <b>2021</b> |
|--|-------------|
| Dividend yield (%)                         | 0.0         |
| Forfeiture rate (%)                        | 5.0         |
| Expected volatility (%)                    | 40.0        |
| Risk-free interest rate (%)                | 1.11        |
| Contractual life (years)                   | 5.0         |
| Weighted average share price at grant date | \$ 2.00     |
| Weighted average fair value at grant date  | \$ 2.00     |

#### 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 at the discretion of the Board of Directors. Performance units are forfeited if participants of the performance share units plan leave the organization other than through retirement or termination without cause prior to the vesting date.

The fair value of a performance share units award is determined at the date of grant by using the closing price of common shares multiplied by the estimated performance multiplier. As at September 30, 2021, performance multipliers of 1.5 have been assumed. Fluctuations in share-

based payments may occur due to changes in estimates of performance outcomes. The amount of share-based payment expense is reduced by an estimated forfeiture rate of 5% for outstanding awards. The fair value of performance share rights granted during the period ended September 30, 2021 was \$2.00 per award.

### c) Restricted share units

The Company has a restricted share unit plan for certain officers, employees and consultants. Restricted share units granted under the restricted share units plan may be exercised during a period (the "Exercise Period") not exceeding five years from the date upon which the restricted rights were granted. The restricted rights typically vest on a graded basis over two years. At the expiration of the Exercise Period, any restricted rights which have not been exercised shall expire. On the date of exercise, the Company has the option of settling the RSU value in cash or in Common Shares of the Company.

This fair value is recognized as share-based payment expense with a corresponding increase to contributed surplus. The fair value of performance share rights granted during the period ended September 30, 2021 was \$2.00 per award.

## 10. REVENUE

The Company sells its production pursuant to fixed or variable price contracts. The transaction price for variable priced contracts is based on the commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Under the contracts, the Company is required to deliver fixed or variable volumes of crude oil as may be applicable to the contract counterparty. Revenue is recognized when a unit of production is delivered to the contract counterparty. The amount of revenue recognized is based on the agreed transaction price, whereby any variability in revenue relates specifically to the Company's efforts to transfer production, and therefore the resulting revenue is allocated to the production delivered in the period during which the variability occurs. As a result, none of the variable 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. Revenues are typically collected on the 25<sup>th</sup> day of the month following production. Included in accounts receivable at September 30, 2021 is \$1.1 million of accrued oil revenue related to 27 days of September 2021 production.

## 11. RISK MANAGEMENT

Subsequent to September 30, 2021, the Company entered into the following swap commodity contracts:

| <b>Commodity</b> | <b>Volumes sold<br/>(bbl/d)</b> | <b>Term</b>           | <b>Reference/<br/>Index</b> | <b>Contract Traded<br/>Bought/sold</b> | <b>Average Price<br/>(CAD\$/bbl)</b> |
|------------------|---------------------------------|-----------------------|-----------------------------|--|--------------------------------------|
| Crude Oil        | 200                             | Nov 1 – Dec 31, 2021  | WTI (CAD\$/bbl)             | Swap - sold                            | \$100.45                             |
| Crude Oil        | 200                             | Nov 1 – Dec 31, 2021  | WTI (CAD\$/bbl)             | Swap - sold                            | \$101.25                             |
| Crude Oil        | 200                             | Jan 1 – June 30, 2022 | WCS FP (CAD\$/bbl)          | Swap - sold                            | \$75.30                              |
| Crude Oil        | 200                             | Jan 1 – Dec 31, 2022  | WCS FP (CAD\$/bbl)          | Swap - sold                            | \$76.15                              |

## 12. SUBSEQUENT EVENTS

On October 5, 2021, Rubellite raised \$83.5 million in equity, all priced at \$2.00 per share (note 1 and note 4).

On October 5, 2021, the Company entered into a first lien credit facility with a syndicate of lenders to establish a new \$3 million revolving credit facility with an initial term to May 31, 2022 and which may be extended for a further twelve months to May 31, 2023 subject to lender approval. The Credit Facility is secured by general first lien security agreements covering all present and future property of the Company and is not subject to any financial covenants.

## **DIRECTORS**

### **Holly Benson**

Independent Director<sup>(1)(2)(3)(4)</sup>

### **Tamara MacDonald**

Independent Director<sup>(1)(2)(3)(4)</sup>

### **Susan L. Riddell Rose**

President, Chief Executive Officer and Director

### **Ryan A. Shay**

Vice President, Finance and Chief Financial Officer and Director

### **Bruce Shultz**

Independent Director<sup>(1)(2)(3)(4)</sup>

<sup>(1)</sup> Member of Audit Committee

<sup>(2)</sup> Member of Reserves Committee

<sup>(3)</sup> Member of Compensation and Corporate Governance Committee

<sup>(4)</sup> Member of Environmental, Health & Safety Committee

## **OFFICERS**

### **Susan L. Riddell Rose**

President, Chief Executive Officer and Director

### **Ryan A. Shay**

Vice President, Finance and Chief Financial Officer

### **Ryan M. Goosen**

Vice President, Business Development and Land

### **Jeffrey R. Green**

Vice President, Corporate and Engineering Services

### **Linda L. McKean**

Vice President, Exploration and Development

### **Marcello M. Rapini**

Vice President, Marketing

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## **BANKERS**

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Bank of Montreal

## **RESERVE EVALUATION CONSULTANTS**

McDaniel & Associates Consultants Ltd.

## **REGISTRAR AND TRANSFER AGENT**

Odyssey Trust Company