



Cavvy Energy Ltd.

Consolidated Financial Statements

For the year ended December 31, 2025



MANAGEMENT'S REPORT

The accompanying consolidated financial statements of Cavvy Energy Limited (the "Company") and all other information contained elsewhere in this report are the responsibility of management. These consolidated financial statements have been prepared by management in accordance with the accounting policies described in the accompanying notes. Consolidated financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects. In the opinion of management, the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. The financial information presented elsewhere in this report has been reviewed to ensure consistency with the consolidated financial statements.

Management maintains appropriate systems of internal control. Policies and procedures are designed to provide reasonable assurance that transactions are appropriately authorized and recorded, assets are safeguarded from loss or unauthorized use and financial records are properly maintained to provide reliable information for preparation of consolidated financial statements.

The Board of Directors (the "Board") is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board exercises this responsibility through the Audit and Risk Committee of the Board, which is comprised entirely of independent directors. The Audit and Risk Committee meets with management and the independent auditors to satisfy itself that management responsibilities are properly discharged and to review the consolidated financial statements before they are presented to the Board for approval. The accompanying consolidated financial statements have been approved by the Board on the recommendation of the Audit and Risk Committee.

Ernst & Young LLP, an independent firm of auditors, has been engaged, as approved by a vote of the shareholders at the Company's most recent Annual General Meeting, to audit and provide their independent audit opinion on the Company's consolidated financial statements as at and for the year ended December 31, 2025. Their report, contained herein, outlines the nature of their audit and expresses their opinion on the consolidated financial statements.

(signed)
Darcy Reding
Chief Executive Officer

(signed)
Adam Gray
Chief Financial Officer

March 18, 2026



INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Cavvy Energy Ltd.

Opinion

We have audited the consolidated financial statements of Cavvy Energy Ltd. (the Company), which comprise the consolidated statements of financial position as at December 31, 2025 and 2024, and the consolidated statements of income (loss) and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2025 and 2024, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter

The impact of estimated proved and probable reserves on PP&E and deferred income tax asset recognition

We draw attention to notes 3, 6 and 17 to the consolidated financial statements. The net carrying value of PP&E is depleted using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Changes in reported reserves can also impact the recognition of deferred tax assets due to changes in expected future cash flows.

The Company had \$347.9 million of PP&E and \$85.0 million recognized related to its deferred income tax asset at December 31, 2025. Depletion and depreciation expense was \$41.1 million for the year ended December 31, 2025.

Proved and probable reserves were evaluated by the Company's independent petroleum engineers (management's expert). Key assumptions developed by management used to determine reserves include forward commodity price estimates, expected future rates of production, future production and royalty costs and future development expenditures.

We considered this a key audit matter due to the significant judgments by management, including the use of management's expert, and a high degree of auditor judgment, subjectivity and effort in performing procedures relating to the key assumptions.

How our audit addressed the key audit matter

Our approach to addressing the matter included the following procedures:

- Test how management determined reserves, which included the following:
 - The competence, capabilities and objectivity of management's expert was evaluated, the work performed was understood and the appropriateness of the work as audit evidence was evaluated. The procedures performed also included evaluation of the methods and assumptions used by management's expert, tests of data used by management's expert and an evaluation of their findings.
 - Evaluated the reasonableness of key assumptions used, including expected future rates of production, future production and royalty costs and future development expenditures by considering current and past performance of the Company and whether these assumptions were consistent with evidence obtained in other areas of the audit, as applicable.
 - Evaluated the reasonableness of forward commodity price estimates by comparing those forecasts with third party industry forecasts.
- Recalculated the unit-of-production rates used to calculate depletion and depreciation expense.
- We recalculated the net deferred income tax asset recognized; this involved the use of tax

Key audit matter

How our audit addressed the key audit matter

specialists in evaluating the application of relevant tax laws and regulations and evaluating whether management’s estimates of future taxable income are consistent with the requirements of IAS 12 – Income Taxes, relating to the probability of forecasted taxable income and the length of the forecasted period.

- We assessed the reasonability of the recoverability of the net deferred income tax asset by evaluating the methodology applied and the inputs utilized by management, including those obtained directly from the petroleum and naturas gas reserves.
- We evaluated the adequacy of the applicable disclosures in the consolidated financial statements in respect of these matters.

Other Information

Management is responsible for the other information. The other information comprises Management’s Discussion and Analysis.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management’s Discussion & Analysis prior to the date of this auditor’s report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor’s report. We have nothing to report in this regard.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the



going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Company as a basis for forming an opinion on the consolidated financial statements. We are responsible for the direction, supervision and review of the work performed for the purposes of the group audit. We remain solely responsible for our audit opinion.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Robert Troy Jubenvill.

Ernst + Young LLP

Chartered Professional Accountants

Calgary, Canada
March 18, 2026



Consolidated Statements of Financial Position

<i>In thousands of Canadian dollars</i>	December 31, 2025	December 31, 2024
Assets		
Current assets		
Cash	5,799	8,576
Accounts receivable (Note 18)	45,830	50,166
Prepaid expenses and other	6,122	7,311
Inventories	3,783	3,772
Risk management contracts (Note 18)	24,990	44,161
	86,524	113,986
Risk management contracts (Note 18)	8,162	23,545
Property, plant, and equipment (Note 6)	347,934	378,727
Exploration and evaluation assets (Note 7)	8,095	8,073
Right-of-use assets (Note 8)	3,396	4,450
Deferred income tax asset (Note 17)	85,025	83,642
Total assets	539,136	612,423
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 18)	77,520	95,830
Current portion of decommissioning obligations (Note 12)	7,900	6,965
Current portion of lease liabilities (Note 9)	1,826	1,689
Warrant liability (Note 11)	12,877	2,773
Current portion of long-term debt (Note 10)	9,704	9,885
	109,827	117,142
Other amounts payable (Note 18)	2,626	727
Decommissioning obligations (Note 12)	144,319	165,189
Lease liabilities (Note 9)	2,673	3,035
Long-term debt (Note 10)	141,144	157,902
Total liabilities	400,589	443,995
Shareholders' equity		
Share capital (Note 13)	307,182	306,306
Contributed surplus	13,922	13,635
Warrants (Note 13)	1,349	1,349
Accumulated other comprehensive income (Note 18)	28,990	55,163
Deficit	(212,896)	(208,025)
Total shareholders' equity	138,547	168,428
Total liabilities and shareholders' equity	539,136	612,423

Commitments (Note 21)

See accompanying notes to the Consolidated Financial Statements.

Approved on behalf of the Board of Directors

Kiren Singh

Chair of the Audit and Risk Committee and Director



Consolidated Statements of Income (Loss) and Comprehensive Loss

<i>In thousands of Canadian dollars</i>	For the year ended December 31,	
	2025	2024
Revenue		
Petroleum and natural gas (Note 14)	187,967	201,918
Royalties	(10,241)	(21,671)
	177,726	180,247
Processing and marketing revenue	38,772	20,188
Other revenue	1,417	666
	217,915	201,101
Realized gain on risk management contracts (Note 18)	76,443	67,219
Unrealized (loss) gain on risk management contracts (Note 18)	(520)	520
	293,838	268,840
Expenses		
Operating	164,758	185,747
Transportation	19,143	17,965
General and administrative	22,743	23,438
Finance (Note 16)	28,436	32,586
Depletion and depreciation (Note 6, 8)	41,057	59,559
Share-based compensation (Note 15)	12,926	2,403
Foreign exchange (gain) loss	(7,657)	14,347
Revaluation of warrant liability (Note 11)	10,104	(1,566)
Gain on asset disposition (Note 6)	-	(10,367)
	291,510	324,112
Net income (loss) before taxes	2,328	(55,272)
Deferred income tax expense (recovery) (Note 17)	7,199	(16,367)
Net loss	(4,871)	(38,905)
Other comprehensive (loss) income, net of income tax		
Change in fair value of cash flow hedges, net of tax (Note 18)	32,439	53,624
Reclassification of realized gain to net (loss) income, net of tax (Note 18)	(58,612)	(51,505)
Total comprehensive loss	(31,044)	(36,786)
Net loss per share		
Basic and diluted (Note 13)	(0.02)	(0.20)

See accompanying notes to the Consolidated Financial Statements.



Consolidated Statements of Changes in Equity

<i>In thousands of Canadian dollars</i>	Share Contributed				Accumulated	Total Equity		
	Capital	Surplus	Warrants	Deficit	Comprehensive	Attributable	Non-	Total Equity
					Income (Loss)	to Equity	Controlling	
						Holder	Interests	
As at December 31, 2023	275,942	13,191	1,349	(168,779)	53,044	174,747	(341)	174,406
Share-based compensation (Note 15)		448	-	-	-	448	-	448
Proceeds on common shares issued on private placement and rights offering	33,483	-	-	-	-	33,483	-	33,483
Share issue costs related to private placement and rights offering (Note 13)	(3,131)	-	-	-	-	(3,131)	-	(3,131)
Common shares issued on stock option exercise (Note 13)	12	(4)	-	-	-	8	-	8
Acquisition of non-controlling interest		-	-	(341)	-	(341)	341	-
Net loss	-	-	-	(38,905)	-	(38,905)	-	(38,905)
Other comprehensive income, net of income tax (Note 18)	-	-	-	-	2,119	2,119	-	2,119
As at December 31, 2024	306,306	13,635	1,349	(208,025)	55,163	168,428	-	168,428
Share-based compensation (Note 15)	-	345	-	-	-	345	-	345
Common shares issued on stock option exercise (Note 13)	156	(58)	-	-	-	98	-	98
Tax effect of share issue costs (Note 13)	720	-	-	-	-	720	-	720
Net loss	-	-	-	(4,871)	-	(4,871)	-	(4,871)
Other comprehensive loss, net of income tax (Note 18)	-	-	-	-	(26,173)	(26,173)	-	(26,173)
As at December 31, 2025	307,182	13,922	1,349	(212,896)	28,990	138,547	-	138,547

See accompanying notes to the Consolidated Financial Statements.



Consolidated Statements of Cash Flows

<i>In thousands of Canadian dollars</i>		For the year ended December 31,	
		2025	2024
Operating activities			
Net loss		(4,871)	(38,905)
Unrealized loss (gain) on risk management contracts	(Note 18)	520	(520)
Depletion and depreciation	(Note 6, 8)	41,057	59,559
Non-cash financing costs	(Note 16)	6,490	8,794
Accretion of decommissioning obligations	(Note 12, 16)	2,590	2,381
Non-cash share-based compensation	(Note 15)	7,134	1,456
Unrealized (gain) loss on foreign exchange		(7,838)	14,322
Revaluation of warrant liability	(Note 11)	10,104	(1,566)
Gain on asset disposition		-	(10,367)
Deferred income tax (recovery) expense	(Note 17)	7,199	(16,367)
Settlement of decommissioning obligations	(Note 12)	(7,431)	(5,549)
Other amounts payable		240	328
Changes in non-cash working capital	(Note 19)	(18,741)	(6,434)
Cash provided by operating activities		36,453	7,132
Investing activities			
Additions to property, plant and equipment	(Note 6)	(23,337)	(25,649)
Additions to exploration and evaluation assets	(Note 7)	(22)	(48)
Deposits		-	(166)
Proceeds from asset disposition		-	11,588
Changes in non-cash working capital	(Note 19)	969	(3,879)
Cash used in investing activities		(22,390)	(18,154)
Financing activities			
Proceeds on issuance of shares	(Note 13)	-	33,483
Share issue costs related to rights offering and private placement	(Note 13)	-	(3,131)
Exercise of stock options		98	8
Draws on long-term debt	(Note 10)	19,383	24,427
Repayment of long-term debt	(Note 10)	(34,979)	(51,446)
Payment of financing fees – long-term debt	(Note 10)	-	(379)
Increase in restricted cash		(150)	-
Payments on lease obligations	(Note 9)	(1,192)	(1,697)
Cash (used in) provided by financing activities		(16,840)	1,265
Decrease in cash and cash equivalents		(2,777)	(9,757)
Cash and cash equivalents, beginning of year		8,576	18,333
Cash and cash equivalents, end of year		5,799	8,576
Cash paid:			
Interest paid in cash	(Note 16)	18,385	20,853

See accompanying notes to the Consolidated Financial Statements.



Notes to the Consolidated Financial Statements

1. Corporate Information

Cavvy Energy Ltd. (the “Company” or “Cavvy”) is a publicly traded, Canadian company headquartered in Calgary, Alberta. Cavvy is a significant upstream producer and midstream gathering and processing operator with core assets concentrated in western Alberta. Cavvy’s business is focused on safely producing, processing and delivering treated natural gas, condensate, natural gas liquids (“NGLs”) and sulphur to market.

On May 9, 2025, the Company rebranded and changed its name from “Pieridae Energy Limited” to “Cavvy Energy Ltd.” and continued from the federal jurisdiction under the *Canada Business Corporations Act* (CBCA) into the provincial jurisdiction of Alberta under the *Business Corporations Act* (ABCA).

The common shares of Cavvy trade on the Toronto Stock Exchange (“TSX”) under the symbol CVVY. The Company was incorporated on May 29, 2012, under the laws of Canada. It is headquartered at 1100, 411 – 1st Street SE, Calgary, Alberta, T2G 4Y5.

The majority of Cavvy’s assets and business activities are held in a wholly owned subsidiary, Cavvy Production Ltd (“CPL”). The Company’s operations are viewed as a single operating segment by the chief operating decision maker of the Company for the purposes of resource allocation and assessing performance.

2. Basis of Presentation

Statement of compliance

The consolidated financial statements as at and for the year ended December 31, 2025 including the notes thereto (the “Consolidated Financial Statements”) have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS Accounting Standards”).

The Consolidated Financial Statements are presented in Canadian dollars. The functional currency of the Company and its subsidiaries is Canadian dollars. All financial information reported in thousands, except per share amounts or where otherwise noted.

The Consolidated Financial Statements have been prepared on a historical cost basis except as detailed in the accounting policies disclosed in Note 3. Certain comparative amounts have been restated to conform to the current year presentation.

The Consolidated Financial Statements were authorized for issue by the Board of Directors on March 18, 2026.

3. Material Accounting Policy Information

The following are the accounting policies which management considers material to the users of the Consolidated Financial Statements. Accounting policy information is considered to be material if its disclosure is needed for users to understand information provided about material transactions, other events or conditions in the Consolidated Financial Statements.

a. Consolidation

The Consolidated Financial Statements include the accounts of the Company and its subsidiaries. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies to obtain benefits from its activities. All inter-entity transactions have been eliminated upon consolidation.

b. Business combinations

The Company accounts for business combinations using the acquisition method when the acquired assets meet the definition of a business under IFRS Accounting Standards. The cost of an acquisition is measured as the fair value of the consideration given, including cash and equity. The acquired identifiable assets and liabilities assumed are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair value of the net identifiable assets acquired is recognized as goodwill. If the cost of acquisition is below the fair values of the identifiable net assets acquired, the difference is recognized as a bargain purchase gain in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) (“statements of income”). Transaction costs are expensed when incurred.



c. Inventories

Inventory is primarily comprised of consumables, materials and supplies and is carried at the lower of cost and net realizable value. Cost of inventory consists of purchase costs and is determined using average cost or on a first-in, first-out basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. If the carrying amount exceeds net realizable value, an impairment is recognized. The impairment may be reversed in a subsequent period if the circumstances that caused it no longer exist and the inventory is still on hand.

d. Financial instruments

Non-derivative financial instruments

The Company's non-derivative financial instruments are assessed at initial recognition in the context of the Company's business model and the contractual cash flow characteristics of the financial assets and liabilities. Initial measurement of non-derivative financial instruments is at fair value. Subsequent measurement is outlined below:

Financial Assets and Liabilities		
Cash and cash equivalents		Amortized cost
Restricted cash		Amortized cost
Accounts receivable		Amortized cost
Prepaid expenses		Amortized cost
Accounts payable and accrued liabilities		Amortized cost
Current and long-term debt		Amortized cost
Warrant liability		Fair value through profit (loss)
Risk management contracts		Fair value through profit (loss)
Risk management contracts – hedge accounting	Fair value through other comprehensive income	
Cash settled share-based awards		Fair value through profit (loss)

The contractual cash flows received from the financial assets are solely payments of principal and interest and are held within a business model whose objective is to collect the contractual cash flows.

Subsequent measurement of financial instruments is based on their classification. Unrealized gains and losses on financial instruments are recognized in statements of income, except those where hedge accounting is applied, which is recognized in other comprehensive income (loss) ("OCI").

The Company classifies its financial instruments measured at fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument. Assessment of the significance of a particular input to the fair value measurement requires judgement and may affect placement in the hierarchy.

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

For assets and liabilities recognized in the Consolidated Financial Statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the fair value hierarchy by re-assessing categorization at the end of each reporting period.

Transaction costs for financial assets and liabilities above are expensed as incurred, except for current and long-term debt. Transaction costs relating to debt are included in the initial carrying value of the debt and the debt is subsequently carried at amortized cost using the effective interest rate method.

A financial liability is derecognized when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same counterparty with substantially different terms, or the terms of an existing liability are substantially modified, it is treated as a derecognition of the original liability and a new liability is recognized. When the terms of an existing financial liability are altered, but the changes are considered non-substantial, it is accounted for as a modification to the existing financial liability. Where a liability is substantially modified it is considered to be extinguished and a gain or loss is recognized in statements of income based on the difference between the carrying amount of the liability derecognized and the fair value new liability. Where a liability is modified in a non-substantial way, the amortized cost of the liability is re-measured based on the new cash flows and a gain or loss is recorded in statements of income. Long-term debt bears a variable and fixed interest rate and is carried at its amortized cost using the effective interest method.



Derivative financial instruments

The Company may enter into certain financial derivative contracts in order to manage its exposure to market risks from fluctuations in commodity prices, interest rates and the exchange rate between Canadian and United States dollars ("USD"). These instruments are not used for trading or speculative purposes. Financial derivative contracts are classified as fair value through profit or loss and are recorded on the Consolidated Statements of Financial Position ("statements of financial position") at fair value. Financial derivatives are subsequently measured at fair value with changes in fair value immediately charged to the statements of income. Transaction costs are recognized in profit or loss when incurred.

The Company has accounted for its forward physical delivery sales contracts and power contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items in accordance with its expected purchase, sale or usage requirements as executory contracts. As such, these contracts are not considered to be derivative financial instruments and have not been recorded at fair value on the statements of financial position. Settlements on these physical sales contracts are recognized as petroleum and natural gas revenue or operating expense in profit or loss.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the combined instrument is not measured at fair value through earnings. Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss. The exception of this is where the equity value of the embedded derivative is nil, where the combined instrument would be measured at fair value.

Hedge accounting

On occasion, the Company may elect to account for its financial risk management assets and cash flow hedges using hedge accounting. In these circumstances, the Company formally documents and designates, at inception of the contract, the qualifying hedging relationships which includes the identification of the hedging instrument, the hedged item, the nature of the risk being hedged, the Company's risk management objective and strategy for undertaking the hedge and how the hedging relationship will be assessed to meet hedge effectiveness requirements. Cavvy uses forward commodity contracts for its exposure to volatility in commodity prices. Management determines the economic relationship between the hedged item and the hedging instrument based on commodity sales being hedged. Hedge effectiveness is evaluated by assessing the critical terms of the hedging relationship at inception, at the end of each reporting date and upon a significant change in the circumstances affecting hedge effectiveness. Management has identified one potential source of hedge ineffectiveness, being that C5 production is hedged against the West Texas Intermediate ("WTI") price. Periods of widening price differentials between C5 and WTI could result in increased hedge ineffectiveness recognized in net income. Management measures this ineffectiveness by comparing a notional derivative to the actual derivative using the hypothetical derivative method. Any material difference is deemed to be hedge ineffectiveness and is recorded in the statements of income.

For a cash flow hedge, the effective portion of the change in the unrealized fair value of the hedging instrument is recognized in OCI. Accumulated gains or losses are reclassified from OCI to statements of income as amounts are settled throughout the term of the arrangement. Any portion of the change in the fair value of the hedging instrument related to hedge ineffectiveness is recognized in statements of income or reclassified from OCI to statements of income when applicable. In certain circumstances, financial instruments originally designated for the application of hedge accounting may be re-evaluated to no longer qualify as a hedging relationship and are redesignated from hedge accounting, in which case the cumulative change in fair value of a derivative that was previously recorded in OCI by the application of hedge accounting is recognized in the statement of income over the remaining term of the original hedging relationship. Financial risk management contracts that are not accounted for as cash flow hedges are classified as fair value through profit or loss.

These financial instruments are not used for trading or speculative purposes.

e. Other comprehensive income

OCI is comprised of the change in the fair value of financial instruments where hedge accounting is applied. Amounts recorded in OCI each period are presented in the statements of income. Cumulative changes in OCI are included in accumulated other comprehensive income ("AOCI"), which is presented in shareholders' equity on the statements of financial position.



f. Property, plant, and equipment

Recognition and measurement

Exploration and evaluation assets

Costs incurred prior to obtaining the right to explore a mineral resource are recognized as an expense in the period incurred. Exploration and evaluation (“E&E”) activities comprise the Company’s E&E projects which are pending determination of technical feasibility and commercial viability.

E&E expenditures are initially capitalized and may include mineral license acquisitions, geological and geophysical evaluations, technical studies, exploration drilling and testing and directly attributable general and administrative costs. Tangible assets acquired, which are consumed in developing an intangible exploration asset, are recorded as part of the cost of the exploration asset. The costs are accumulated in cost centers by exploration area pending determination of technical feasibility and commercial viability.

The technical feasibility and commercial viability of extracting a mineral resource in an exploration area is generally considered to be determinable when economical quantities of proved and probable reserves have been discovered. A review of each exploration area is carried out at each reporting date to ascertain whether reserves have been discovered. Upon determination of commercial proved and probable reserves, associated exploration costs are transferred from E&E to property, plant and equipment (“PP&E”) as reported on the statements of financial position. E&E assets are reviewed for impairment prior to any such transfer. Assets classified as E&E are not subject to depletion and depreciation until they are classified to PP&E.

E&E assets are assessed for impairment if: (i) sufficient data exists to determine technical feasibility and commercial viability; or (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, E&E assets are allocated to related cost generating units (“CGUs”).

Development and production costs

Items of PP&E, which include oil and gas development and production costs, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. PP&E includes land and lease acquisition costs, geological and geophysical costs, costs of drilling and equipping productive wells, costs for production and processing facilities, decommissioning costs and other directly attributable administrative costs. PP&E is accumulated in cost centers based on CGUs for impairment testing. When significant parts of an item of PP&E have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of PP&E, property swaps and farm-outs, are determined by comparing the proceeds or fair value of the asset received or given up with the carrying amount of PP&E and are recognized in profit or loss.

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of PP&E are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized petroleum and natural gas assets and equipment generally represent costs incurred in developing proved and/or probable reserves and bringing on or enhancing production from such reserves and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of PP&E are recognized in profit or loss as incurred.

Depletion and depreciation

The net carrying value of PP&E is depleted using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Relative volumes of reserves and production are converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil. Future development costs are estimated by taking into account the level of development required to produce those reserves. These estimates are reviewed by independent engineers at least once annually.

Capitalized plant turnaround costs are depreciated on a straight-line basis over the estimated time until the next turnaround is completed. Corporate assets, which include office furniture and equipment, software and computer equipment are depreciated on a straight-line basis over the useful lives of the assets, which are estimated to be five years, or on a declining balance basis of 20 to 30 percent per year.

g. Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired by measuring the asset’s expected credit loss (“ECL”). The ECL pertaining to accounts receivable is assessed at initial recognition and this provision is re-assessed at each reporting date. The provision is adjusted as a result of changes in historical default rates, age of balances outstanding and



counterparty credit metrics. In making an assessment as to whether financial assets are credit-impaired, the Company considers historically realized bad debts and evidence of a debtor's present financial condition. The carrying amounts of financial assets are reduced by the amount of the ECL through an allowance account and losses are recognized through profit or loss. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than E&E and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. E&E assets are assessed for impairment when they are reclassified to PP&E and if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets or CGUs. The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows from proved and probable reserves are discounted to their present value that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs to sell is determined as the amount that would be obtained from the disposition of the asset in an arm's length transaction between knowledgeable and willing parties. The petroleum and natural gas future prices used in the impairment test are based on period-end commodity price forecasts estimated by the Company's independent reserves evaluator and are adjusted for petroleum and natural gas differentials, transportation and marketing costs specific to the Company.

Where circumstances change such that an impairment no longer exists or is less than the amount previously recognized, the carrying amount of the CGU is increased to the revised estimate of its recoverable amount as long as the revised estimate does not exceed the carrying amount that would have been determined, net of depletion and depreciation, had no impairment loss been recognized for the CGU in prior periods. A reversal of an impairment loss is recognized immediately through income or loss.

h. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive), as a result of a past event, if it is probable the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is significant).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably. Provisions are not recognized for future operating losses.

Decommissioning obligations

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. A provision is made 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 best estimate of expenditure required to settle the present obligation at the statement of financial position date using the risk-free interest rate. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as a finance cost whereas increases/decreases due to changes in the estimated future cash flows 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 recognition

Revenue from the sale of petroleum and natural gas is measured based on the consideration specified in contracts with customers. The Company recognizes revenue when it transfers control of the product to the buyer. This is generally at the time the customer obtains legal title to the product and when it is physically transferred to the custody transfer point accepted by the customer, often terminals, pipelines or other transportation methods.

The Company evaluates its arrangements with counterparties and partners to determine if the Company acts as the principal or as an agent. In making this evaluation, management considers if the Company obtains control of the product delivered, which is indicated by the Company having the primary responsibility for the delivery of the product, having the ability to establish prices or having inventory risk. If



the Company acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net-basis, only reflecting the fee, if any, realized by the Company from the transaction.

Tariffs and tolls charged to other entities for use of facilities owned by the Company are recognized as revenue as they accrue in accordance with the terms of the service or tariff and tolling agreements.

j. Foreign currency transactions

Transactions completed in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the time of the transactions. Foreign currency assets and liabilities are translated to functional currency at the period-end exchange rate. Revenue and expenses are translated to functional currency using the average exchange rate for the period. Realized and unrealized gains and losses resulting from the settlement or translation of foreign currency transactions are included in profit or loss.

Certain subsidiaries of the Company operate and transact primarily in currencies other than the Canadian dollar. The designation of a subsidiary's functional currency is a management judgment based on the currency of the primary economic environment in which the subsidiary operates. The financial statements of each entity are translated into Canadian dollars in preparation of the Company's Consolidated Financial Statements. The assets and liabilities of a foreign denominated operation are translated to Canadian dollars at the period-end exchange rate. Revenues and expenses of foreign denominated operations are translated to Canadian dollars using the average exchange rate for the period. Foreign exchange differences are recognized in AOCI.

k. Share-based compensation

The Company's share-based compensation plan includes equity-settled and cash-settled awards.

Equity-settled share-based awards granted by the Company include stock options granted to directors, officers, employees and key consultants. The fair value determined at the grant date of an award is expensed on a graded basis over the vesting period of each respective tranche of an award with a corresponding adjustment to contributed surplus. In calculating the expense of share-based awards, the Company revises its estimate of the number of equity instruments expected to vest by applying an estimated forfeiture rate for each vesting tranche and subsequently revising this estimate throughout the vesting period, as necessary, with a final adjustment to reflect the actual number of awards that vest. Upon the exercise of share-based awards, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. In the event that vested share-based awards expire without being exercised, previously recognized compensation costs associated with such rewards are not reversed.

The fair value of equity-settled share-based awards is measured using the Black-Scholes option-pricing model taking into account the terms and conditions upon which the awards were granted. Measurement inputs as at the grant date include share price, exercise price, expected volatility, weighted average expected life of the instruments, expected dividends and the risk-free interest rate applicable to the term of the award.

Cash-settled share-based awards consist of Restricted Share Units ("RSUs") granted to officers and employees and Deferred Share Units ("DSUs") granted to directors. Liabilities associated with cash-settled awards are determined based on the fair value of the award at grant date and are subsequently revalued at each period end. This valuation incorporates the five-day volume-weighted average share price ("VWAP") and the number of awards outstanding at each period end. Compensation expense is recognized in the statements of income over the relevant service period with a corresponding increase or decrease in accrued liabilities. Classification of the associated short-term and long-term liabilities is dependent on the expected payout dates of the awards.

l. Finance income and expenses

Finance expenses comprise service charges, interest expense on long-term debt, accretion of financing costs and accretion of decommissioning obligations. Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognized in profit or loss using the effective interest rate method. The capitalization rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the Company's outstanding long-term debt during the period.

m. Income tax

Income tax expense comprises current and deferred tax and is recognized in net income or loss except to the extent that it relates to items recognized directly 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 reporting date and any adjustments to tax payable in respect of previous years.



Deferred tax is recognized using the balance sheet method, providing for 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 reporting 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 reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

n. Per share information

Basic earnings per share information is calculated on the basis of weighted average number of common shares outstanding during the period. Diluted per share information reflects the potential dilutive effect of stock options and warrants. No adjustment to diluted net loss per share is made if the result of these calculations is anti-dilutive.

o. Joint arrangements

The Company conducts its exploration and development activities independently, as well as jointly with others through jointly controlled assets and operations. All of the Company's current interests in joint arrangements are classified as joint operations. To account for these arrangements, the Company recognizes its proportionate share of the related revenues, expenses, assets and liabilities of such joint operations.

p. Determination of fair value

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Property, plant and equipment and intangible exploration assets

The fair value of PP&E recognized in a business combination is based on market values. The market value of PP&E is the estimated amount for which PP&E could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in PP&E) and exploration assets is estimated with reference to the discounted cash flow expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions. The market value of other items of PP&E is based on the quoted market prices for similar items.

Derivatives

The fair value of financial commodity price risk management contracts is determined by discounting the difference between the contracted prices and published forward price curves as at the statements of financial position date, using the remaining contracted oil and natural gas volumes and a risk-free interest rate (based on published government rates). The fair value of options and costless collars is based on option models that use published information with respect to volatility, prices and interest rates.

Share options

The fair value of employee share options is measured using a Black-Scholes option-pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends and the risk-free interest rate (based on government bonds).

Measurement

The Company classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.



Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

q. Leases

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A lease obligation and corresponding right-of-use (“ROU”) asset, are recognized at the commencement of the lease. The present value of the lease obligation is based on the future lease payments and is discounted using the Company’s incremental borrowing rate when the rate implicit in the lease is not readily available. The Company uses a single discount rate for a portfolio of leases with similar characteristics. The lease asset is recognized at the amount of the lease obligation, adjusted for lease incentives received and initial direct costs, on commencement of the lease. Depreciation is recognized on the lease asset over the shorter of the estimated useful life of the asset or the lease term. Lease payments are allocated between the liability and interest expense. Interest expense is recognized on the lease obligations using the effective interest rate method and payments are applied against the lease obligation.

4. New Accounting Policies and Standards

New Accounting Policies

Disclosures about Uncertainty in Financial Statements

On November 27, 2025, the International Accounting Standards Board (“IASB”) published final illustrative examples to support disclosures about uncertainty in financial statements. These examples were developed in response to stakeholder concerns regarding the reporting of the effects of climate-related risks and were broadened by the IASB to address uncertainties more generally.

The illustrative examples are intended to assist entities in the consistent application of existing IFRS Accounting Standards and to enhance the quality, clarity, and usefulness of disclosures about the effects of uncertainties, including those arising from significant judgements and estimation uncertainty. The examples do not introduce new recognition or measurement requirements but provide guidance on how existing disclosure requirements may be applied in circumstances where uncertainty could reasonably influence users’ understanding of the financial statements. Management has considered and applied these amendments, where necessary, in the Consolidated Financial Statements.

Future Accounting Pronouncements

IFRS 18 Presentation and Disclosure in Financial Statements

In April 2024, the IASB issued IFRS 18 – Presentation and Disclosure in Financial Statements, which replaces IAS 1 – Presentation of Financial Statements and establishes a revised structure for the financial statements, required disclosures for certain management-defined performance measures and enhanced requirements for grouping of information in the financial statements. IFRS 18 is effective for years beginning on or after January 1, 2027, with early adoption permitted. The Company is currently in the process of assessing its impact on its Consolidated Financial Statements.

Amendments to IFRS 7 and IFRS 9 the Classification and Measurement of Financial Instruments

In May 2024, the IASB issued Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 7 and IFRS 9). The amendments issued to IFRS 7 and IFRS 9 clarify the date of recognition and detection of some financial assets and liabilities, with new exceptions for some liabilities settled through electronic cash transfer. The amendments also clarify and add further guidance for assessment of whether a financial asset meets the “solely payments of principal and interest criteria”, as well as adds new disclosures for certain instruments with contractual terms that can change cash flows. Finally, this amendment also updates the disclosures for equity instruments designated at fair value through other comprehensive income. These amendments take effect on January 1, 2026. These amendments are not expected to have a material impact on the Consolidated Financial Statements.



5. Management Judgement and Estimation Uncertainty

The timely preparation of the Consolidated Financial Statements requires management to make judgments, estimates and assumptions. These estimates and judgements are subject to change and actual results may differ from those estimated. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets, liabilities, revenues and expenses are discussed below:

a. Identification of cash-generating units

Some of the Company's assets are aggregated into CGUs for the purpose of calculating depletion and impairment. A CGU is comprised of assets that are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. By their nature, these estimates and assumptions are subject to measurement uncertainty and may impact the carrying value of the Company's assets in future periods.

b. Impairment of petroleum and natural gas assets

For the purposes of determining whether impairment of petroleum and natural gas assets has occurred and the extent of any impairment or its reversal, the key assumptions the Company uses in estimating future cash flows are forecasted petroleum and natural gas prices, expected production volumes and anticipated recoverable quantities of proved and probable reserves. These assumptions are subject to change as new information becomes available. Changes in economic conditions can also affect the rate used to discount future cash flow estimates. Changes in the aforementioned assumptions could affect the carrying amounts of assets. Impairment charges and reversals are recognized in statements of income. The rates used to discount future cash flows are based on judgment of economic, regulatory and operating factors. Changes in these factors could increase or decrease the discount rate which may result in material changes.

c. Debt instruments

Debt instruments are initially recognized at fair value based on consideration received and adjusted in respect of any transaction costs that are incremental and directly attributable to the issue of the instrument. Subsequent measurement is at amortized cost and the effective interest rate method. Certain financing arrangements contain options which may revise future estimated cash outflow and result in an adjustment to the carrying value of the financial liability. At each reporting period, the Company will estimate whether such options will be exercised and if an adjustment to the financial liability is required. All adjustments arising from such changes in estimates are recognized immediately in profit or loss.

d. Reserves

The assessment of reported recoverable quantities of proved and probable reserves include estimates regarding production profile, commodity prices, carbon compliance costs, potential tariff changes, exchange rates, remediation costs, timing and amount of future development costs and production, transportation and marketing costs for future cash flows. It also requires interpretation of geological, engineering and geophysical models in anticipated recoveries. The economical, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact the carrying values of the Company's PP&E, the calculation of depletion, the provision for decommissioning obligations and the recognition of deferred tax assets due to changes in expected future cash flows. The recoverable quantities of proved and probable reserves and associated estimated cash flows are independently evaluated by qualified reserve evaluators at least annually.

The Company's petroleum and natural gas reserves represent the estimated quantities of petroleum and natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be economically recoverable in future years from known reservoirs and which are considered economically producible. Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon (i) a reasonable assessment of the future economics of such production; (ii) a reasonable expectation that there is a market for all or substantially all the expected petroleum and natural gas production; and (iii) evidence that the necessary production, transmission and transportation facilities are available or can be made available. Reserves may only be considered proven and probable if the ability to produce is supported by either production or conclusive formation tests. The Company's petroleum and gas reserves are determined pursuant to National Instrument 51-101, Standard for Disclosures for Oil and Gas Activities.



e. Decommissioning obligations

The Company estimates future decommissioning and remediation costs of wells, pipelines, production facilities and processing facilities at the end of their economic lives based on current legislation and operating practices. In most instances, abandonment and reclamation of these assets occurs many years into the future. In estimating future decommissioning obligations, the Company makes assumptions concerning:

- The nature and scope of work required to abandon and reclaim properties and the costs thereof, which incorporate the Company's prior experience in abandoning properties with similar characteristics, any site-specific liability assessments and other available benchmarks
- The dates that abandonment and reclamation work will be performed in the future, which incorporates expectations of the productive lives of properties and the requirements of applicable laws; and
- The inflation and risk-free discount rate.

The actual amount and timing of payments to settle decommissioning obligations may materially differ from estimates due to, among other things, changes in laws and regulations, changes in technology and operating practices and changes in life of proven and probable reserves. These differences may have a material impact on the decommissioning obligation provision in the future.

f. Deferred Taxes

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in statements of income in the period of change, which would include any impact on cumulative provisions and in future periods. Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings. To the extent that 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 amount recognized in statements of income for the period in which the change occurs.

6. Property, Plant and Equipment

The following table summarizes the Company's PP&E balances at December 31, 2025 and 2024:

(\$ 000s)		
Cost	2025	2024
Balance, January 1	675,857	640,616
Additions	23,337	25,649
Dispositions	-	(3,849)
Change in decommissioning obligations (Note 12)	(15,094)	13,441
Balance, December 31	684,100	675,857

Accumulated Depletion and Depreciation	2025	2024
Balance, January 1	297,130	239,625
Depletion and depreciation	39,036	57,505
Balance, December 31	336,166	297,130

Net Book Value	2025	2024
Balance, January 1	378,727	400,991
Balance, December 31	347,934	378,727

(1) \$2.8 million of G&A and \$0.1 million of share-based compensation expense was capitalized to property, plant and equipment during the year ended December 31, 2025 (December 31, 2024 – \$2.1 million of G&A and \$0.2 million of share-based compensation expense).

At December 31, 2025, future development costs of the Company's proved plus probable reserves of \$341.5 million (December 31, 2024 - \$761.6 million) were included in the depletion calculations.

At December 31, 2025, no potential impairment indicators were identified related to the Company's PP&E assets.

On July 25, 2024, the Company completed the sale of certain assets including undeveloped land located near Goldboro, Nova Scotia for net proceeds of \$11.5 million after customary adjustments. The net book value of these undeveloped properties was \$3.8 million, resulting in a gain of \$7.7 million.



7. Exploration and Evaluation Assets

The following table summarizes the Company's E&E assets at December 31, 2025 and 2024:

(\$ 000s)	2025	2024
Balance, January 1	8,073	8,025
Additions	22	48
Balance, December 31	8,095	8,073

E&E assets primarily consist of the Company's seismic assets, undeveloped land and exploration projects which are pending the determination of technical feasibility and commercial viability. At December 31, 2025 and 2024, no potential impairment indicators were identified related to the Company's E&E assets.

8. Right-Of-Use Assets

The Company enters into arrangements to secure access to assets necessary for operating the business. ROU assets include office, vehicles and equipment. The following table details the cost and accumulated depreciation of the Company's ROU assets as at December 31, 2025 and December 31, 2024:

(\$ 000s)	2025	2024
Cost		
Balance, January 1	16,248	13,172
Additions	967	3,076
Derecognition of ROU assets	(3,929)	-
Balance, December 31	13,286	16,248

	2025	2024
Accumulated Depreciation		
Balance, January 1	11,798	9,744
Depreciation	2,021	2,054
Derecognition of ROU assets	(3,929)	-
Balance, December 31	9,890	11,798

	2025	2024
Net Book Value		
Balance, January 1	4,450	3,428
Balance, December 31	3,396	4,450

At December 31, 2025 and 2024, the Company determined that no potential impairment indicators existed on the ROU assets.

9. Lease Liabilities

The following table summarizes the movement in the Company's lease liabilities for the year ended December 31, 2025 and 2024:

(\$ 000s)	2025	2024
Balance, January 1	4,724	3,511
Additions	967	2,910
Interest expense (Note 16)	544	362
Lease payments	(1,736)	(2,059)
Balance, December 31	4,499	4,724
Lease liabilities due within one year	1,826	1,689
Lease liabilities due beyond one year	2,673	3,035

Lease payments that were expensed under short-term and low dollar value exemptions in the years ended December 31, 2025 and 2024 were not significant.



10. Long-Term Debt

The following tables summarize the Company's available liquidity and long-term debt balances as of December 31, 2025:

(\$ 000s)	Interest Rate (%)	Principal outstanding (USD)	Unamortized financing fees (USD)	Subtotal (USD)	Principal outstanding (CAD) ⁽¹⁾	Availability (USD)
Senior Facility						
Revolving Loan USD \$22,000 ⁽¹⁾⁽²⁾	SOFR + 6.75	18,100	-	18,100	24,808	3,900
Term Notes USD \$88,500 ⁽¹⁾	SOFR + 6.75	64,150	-	64,150	87,986	-
Subordinated Notes USD \$33,606 ⁽¹⁾	13.00	33,606	(3,216)	30,390	41,652	-
December 31, 2025		115,856	(3,216)	112,640	154,446	3,900

(1) Converted to CAD using the month end exchange rate of 1.3706 at December 31, 2025.

(2) The Revolving Loan was repaid in full on January 8, 2026.

(\$ 000s)	Senior Facility (i)					
	Revolving Loan	Term Notes	Senior Facility Financing Costs	Subordinated Notes (ii)	Bridge Term Loan (iii)	Total
Balance, January 1, 2024	19,574	107,924	(9,316)	32,280	21,754	172,216
Repayment of long-term debt	(17,497)	(9,472)	-	-	(24,477)	(51,446)
Draws on long-term debt ⁽²⁾	17,386	4,929	-	2,112	-	24,427
Non-cash interest paid in kind (Note 16)	-	-	-	1,452	2,449	3,901
Financing fees on debt modification	-	-	(214)	(165)	-	(379)
Amount allocated to warrant liability (Note 11)	-	-	-	(146)	-	(146)
Accretion of financing costs (Note 16)	-	-	3,053	1,566	274	4,893
Foreign exchange loss ⁽¹⁾	2,120	9,248	-	2,953	-	14,321
Balance, December 31, 2024	21,583	112,629	(6,477)	40,052	-	167,787
Repayment of long-term debt	(15,086)	(19,893)	-	-	-	(34,979)
Draws on Revolving Loan	19,383	-	-	-	-	19,383
Non-cash interest paid in kind (Note 16)	-	-	-	1,577	-	1,577
Accretion of financing costs (Note 16)	-	-	2,879	2,034	-	4,913
Foreign exchange gain ⁽¹⁾	(1,072)	(4,750)	-	(2,011)	-	(7,833)
Balance, December 31, 2025	24,808	87,986	(3,598)	41,652	-	150,848
Current	-	9,704	-	-	-	9,704
Long-term	24,808	78,282	(3,598)	41,652	-	141,144

(1) Converted to CAD using the month end exchange rate of 1.3706 at December 31, 2025.

i. Senior Facility

The Senior Facility was issued to the Company on June 13, 2023 and consists of the Term Notes and the Revolving Loan. The Senior Facility bears interest at the Secured Overnight Financing Rate ("SOFR") plus 6.75% per annum from the date of issue accrued daily and payable monthly or quarterly at the Company's discretion. The Senior Facility is subject to an excess cash flow sweep, which is based on a prescriptive formula and was not triggered at December 31, 2025. It is repayable in full on March 13, 2027. Effective December 5, 2025, the Company may repay the Senior Facility in whole or in part upon written notice to the lender without any form of prepayment penalty.

The Term Notes amortize at 2% quarterly. The Company incurred \$10.8 million of closing costs, which were accounted for as transaction costs and netted against the value of the long-term debt to be amortized over 45 months. The effective interest rates on the Term Notes was 10.9% (December 31, 2024 – 12.2%).

The Revolving Loan is subject to a standby fee of 0.5% per annum payable quarterly on the undrawn portion. The effective interest rate on the Revolving Loan was 10.7% (December 31, 2024 – 11.7%).

The maximum borrowing base on the Senior Facility is \$110.5 million including a maximum Revolver Loan borrowing base of USD \$22 million.



ii. Subordinated Notes

The Subordinated Notes were issued by the Company on June 13, 2023 and bear interest at a fixed rate of 13% per annum accrued daily and payable quarterly. The Subordinated Notes are repayable in full on September 13, 2027. The Company may repay them in whole or in part upon written notice to the lender by incurring an early termination penalty of USD \$50.4 million less the total amount of the principal and interest paid to date (full make-whole). The Company incurred \$0.8 million of closing costs, which were accounted for as transaction costs and netted against the value of the loan to be amortized over 51 months.

In conjunction with the Subordinated Notes issuance, 18,596,322 common share purchase warrants were issued, as described in Note 11. Accordingly, the proceeds from the Subordinated Notes were allocated between the Subordinated Notes and the warrants based on their relative fair values resulting in \$7.2 million being allocated to the warrant liability at inception. The effective interest rate on the Subordinated Notes for the year ended December 31, 2025, was 19.6% (December 31, 2024 – 19.8%).

On November 26, 2024, the Company and its lenders amended the Subordinated Note agreement and authorized the issuance of additional Subordinated Notes in the amount of \$1.5 million with the same terms as the original Subordinated Note issuance. In connection with the amendments, the Company issued an additional 1,208,092 warrants at an exercise price of \$0.30 per share expiring on June 13, 2030. As part of these amendments, the lender provided a temporary relief period from certain financial covenants related to its Senior Facility and Subordinated Notes from September 30, 2024 to March 31, 2025. During the relief period, the interest rate on both the Senior Facility and Subordinated Notes was increased by 0.5%. Additional transaction costs of 0.15% of the outstanding principal on the Senior Facility and on the Subordinated Notes were netted against the respective debt instrument and are being amortized over their remaining lives.

iii. Bridge Term Loan

A bridge term loan was settled in cash on August 1, 2024 for \$24.0 million, which included all outstanding principal and accrued interest. Unamortized closing costs of \$0.2 million were accelerated and expensed upon repayment.

Covenants

The Senior Facility and Subordinated Notes contain various financial and non-financial covenants including restrictions or requirements with respect to additional debt, liens, asset sales, capital expenditures, general and administrative expenditures, hedging activities, investments, dividends and mergers and acquisitions. Cavvy is subject to the following minimum financial covenants at the end of each quarter calculated on a fiscal rolling quarter basis:

	Minimum Requirement for December 31, 2025	Cavvy ratios at December 31, 2025
Total leverage ratio	Total debt ⁽²⁾ /EBITDAX ⁽¹⁾ <2.5X	1.86X
Senior leverage ratio	Senior debt ⁽³⁾ /EBITDAX ⁽¹⁾ <2X	1.35X
Asset coverage ratio	Adjusted PDP PV 10 reserves/Total debt ⁽²⁾ >2X	6.23X
Interest coverage ratio	EBITDAX ⁽¹⁾ /Finance expense >2.0X	3.39X

(1) EBITDAX is defined as earnings before the deduction of non-cash items, such as depletion and depreciation, share-based compensation, unrealized foreign exchange gains or losses, unrealized gains or losses on warrants, unrealized gains or losses on asset dispositions, and deferred income tax recovery or expense.

(2) Total debt is defined as net payments due on or receivable from risk management contracts, long-term debt, and collateralized letters of credit.

(3) Senior debt is defined as net payments due on or receivable from risk management contracts, the Senior Facility, and collateralized letters of credit.

The Company is additionally subject to a hedge requirement over the term of the Senior Facility, whereby the following percentages of proved developed producing (“PDP”) natural gas and condensate production must be hedged, net of annualized royalties calculated as at June 13, 2023: 75% in months 1 to 24 at a minimum average price of C\$3.50/Mcf, 45% in months 25 to 36 at a minimum average price of C\$3.50/Mcf and 25% in months 37 to 48 at a minimum average price of C\$3.50/Mcf, as measured from June 13, 2023. These obligations were met in full at December 31, 2025 and will be adjusted to account for updates to PDP reserve forecasts over the term of the Senior Facility and Subordinated Notes.

As at December 31, 2025 the Company was in compliance with all covenants.

Letter of credit guarantee facility

Effective July 1, 2025, the guarantee facility from Export Development Canada was renewed and maintained at \$12.0 million. This facility provides for 100% guarantee to the issuing bank of the Company’s existing and future letters of credit of which \$10.0 million was drawn at December 31, 2025 (December 31, 2024 - \$8.4 million).

11. Warrant Liability

As described in note 10, in conjunction with the original issuance of the Subordinated Notes, the Company issued 18,596,322 warrants at an exercise price of \$0.49 per share expiring on June 13, 2030 (“Tranche 1”). During the year ended December 31, 2024, the Company entered into a subscription agreement for a rights offering (see Note 13), which triggered the anti-dilution clause contained within the original warrant agreement. As a result, on October 17, 2024, the Tranche 1 warrants were re-structured at an exercise price of \$0.46 per share.

On November 26, 2024, the Company issued an additional 1,208,092 warrants at an exercise price of \$0.30 per share expiring on June 13, 2030 (“Tranche 2”).

Each Tranche 1 and Tranche 2 warrant is exercisable into one common share. The warrants are classified as a financial liability due to a cashless exercise feature. The initial value of the warrants was calculated using the Black-Scholes option valuation model. The initial Black-Scholes valuation was applied against the value of the Subordinated Notes as a transaction cost measured at amortized cost.

The changes in warrants outstanding for the years ended December 31, 2025 and 2024 were as follows:

	Warrants	Weighted Average Exercise Price ⁽¹⁾
Balance, December 31, 2023	18,596,322	0.49
Granted	1,208,092	0.30
Balance, December 31, 2024 & 2025	19,804,414	0.45

(1) As discussed above, the Tranche 1 warrants were re-structured in 2024 at an exercise price of \$0.46 per share.

The following table reconciles the movement in the warrant liability for the years ended December 31, 2025 and 2024:

(\$ 000s)	2025	2024
Balance, January 1	2,773	4,192
Change in fair value to Tranche 1 due to re-strike (October 17, 2024)	-	(43)
Initial value of Tranche 2 (November 26, 2024)	-	147
Change in fair value	10,104	(1,523)
Balance, December 31	12,877	2,773

At each reporting period the warrant liability is remeasured and any changes in fair value are recognized in the statements of income. The fair value of the warrants is determined using the Black-Scholes option valuation model. The warrants may be exercised at any time and are therefore presented as a current liability on the statements of financial position.

The following table provides the assumptions used in the Black-Scholes pricing model to calculate the fair value of the warrants at the respective period ends:

	December 31, 2025	December 31, 2024
Risk-free interest rate	2.76%	2.74%
Expected life (years)	4.45	5.45
Weighted average fair-value price per warrant	\$0.65	\$0.14
Volatility	72.32%	69.30%

12. Decommissioning Obligations

The following table summarizes the Company’s decommissioning obligations at December 31, 2025 and 2024:

(\$ 000s)	2025	2024
Balance, January 1	172,154	161,881
Change in cost estimates ⁽¹⁾	3,599	19,608
Change in discount rate	(18,693)	(6,167)
Settlement of obligations	(7,431)	(5,549)
Accretion	2,590	2,381
Balance, December 31	152,219	172,154
Expected to be incurred within one year	7,900	6,965
Expected to be incurred beyond one year	144,319	165,189

(1) The change in cost estimates for the year ended December 31, 2024 relate to the update of AER directive 11.



The Company's decommissioning obligations result from its net ownership interest in petroleum and natural gas assets including well sites, gathering systems and processing facilities. As at December 31, 2025, the Company estimates the total undiscounted amount of cash flows required to settle its decommissioning obligations is \$292.6 million (December 31, 2024 - \$292.9 million).

The Company uses an observable, market-based and inflation-adjusted risk-free real rate of return to estimate the present value of the decommissioning obligation. As at December 31, 2025, the inflation adjusted risk-free discount rate was 1.87% (December 31, 2024 - 1.51%).

A portion of the Company's decommissioning obligations were acquired from Shell as part of the southern Alberta Foothills acquisition in October 2019, which included three major gas processing facilities. In accordance with the purchase and sale agreement ("PSA"), Shell retains the obligation for reclamation of subsurface contamination from pre-existing sulfidic plumes under two of these facilities. These subsurface costs represent a material percentage of the total decommissioning liability associated with these two facilities. The Company has not recognized a liability for this portion of the estimated decommissioning cost. Following the acquisition, Shell submitted application to the AER to transfer the licenses from Shell to Cavvy, which was initially rejected due to complications of the liability bifurcation. This license transfer process remains ongoing; material uncertainty exists regarding the timing and outcome of that transfer.

The decommissioning obligation is sensitive to changes in key assumptions, including the discount rate and the estimated timing of the asset retirement. Changes in these assumptions could result in material adjustments to the obligation in future periods.

The following table illustrates the impact of changes in the discount rate and timing on the decommissioning obligation:

(\$ 000s)	Increase		Decrease	
	2025	2024	2025	2024
Change in Timing (+/- 5 years) ⁽¹⁾	(12,699)	(13,308)	13,597	11,457
Change in Rate (+/- 0.5%)	(21,736)	(22,433)	26,837	31,510

(1) The first 5 years of timing remains unchanged for both the 2025 and 2024 years.

13. Share Capital

Authorized

The Company has an unlimited number of common shares with the holders of common shares entitled to one vote per share and an unlimited number of preferred shares issuable in series, with rights and privileges to be designated by the Board of Directors at the time of issuance. There were no preferred shares outstanding at December 31, 2025 or 2024.

Issued and outstanding common shares

The following table outlines the issued and outstanding shares at December 31, 2025 and 2024:

(\$ 000s except per share amounts)	2025		2024	
	Common shares	\$	Common shares	\$
Balance, January 1	290,387,642	306,306	159,087,336	275,942
Shares issued on stock option exercise (Note 15)	292,628	156	24,000	12
Shares issued on private placement and rights offering	-	-	12,800,000	4,480
Shares issued on rights offering	-	-	118,476,306	29,003
Share issue costs	-	-	-	(3,131)
Tax effect of share issue costs	-	720	-	-
Balance, December 31	290,680,270	307,182	290,387,642	306,306

On August 2, 2024, the Company completed a non-brokered private placement to issue 12.8 million common shares to an existing shareholder at a price of \$0.35 per share for gross proceeds of \$4.5 million. Share issuance costs of \$0.8 million were applied against the proceeds.

On October 7, 2024, the Company completed a backstopped equity rights offering of its common shares to eligible shareholders. The rights offering resulted in the Company issuing an aggregate of 118.5 million common shares at a price of \$0.2448 per common share, for aggregate gross proceeds of \$29.0 million. Share issue costs of \$2.3 million were applied against the proceeds.

Warrants

On March 31, 2021, the Company issued 5,000,000 common share purchase warrants at an exercise of \$0.70 per common share warrant with an expiry date of March 31, 2026. The 2024 equity rights offering triggered the anti-dilution clause in the warrant agreement resulting



in the exercise price being restocked to \$0.68 per share and the number of shares issued per warrant updated from 1 to 1.024047. Subsequent to December 31, 2025, these warrants were exercised resulting in the issuance of 5,120,235 common shares and proceeds of \$3.5 million.

Per share amounts

Per common share amounts have been determined based on the following:

	Year Ended December 31, 2025	Year Ended December 31, 2024
Weighted average common shares, basic and diluted ⁽¹⁾	290,482,104	191,539,405

(1) For the year ended December 31, 2025, all options and all warrants were excluded from the diluted weighted average shares calculation as they were anti-dilutive (December 31, 2024 – all options and all warrants).

14. Petroleum and Natural Gas Sales

The Company's major revenue sources are comprised of sales from the production of natural gas, condensate, natural gas liquids and sulphur. The sale of these products is recognized when control of the product transfers to the customer and the cash collection is reasonably probable, upon delivery of the product. The sale of produced commodities occurs under contracts of varying terms of up to one year. Revenues are typically collected on the 25th day of the month following delivery. Product sales are based on fixed or variable price contracts. Transaction prices for variable priced contracts are based on benchmark commodity prices and other variable factors, including quality differentials and location. The Company's petroleum and natural gas revenues are set out below:

(\$ 000s)	Year Ended December 31, 2025	Year Ended December 31, 2024
Natural gas	76,255	87,295
Condensate	72,042	82,879
NGLs	27,200	25,216
Sulphur	12,470	6,528
Total petroleum and natural gas revenue	187,967	201,918

15. Share-Based Compensation

The Company has incentive plans that permit the grant of options, RSUs and DSUs to eligible individuals. The following table summarizes the Company's outstanding share-based compensation units:

	Year Ended December 31, 2025	Year Ended December 31, 2024
Stock options	6,286,209	6,948,475
RSUs	19,835,988	23,340,732
DSUs	1,634,222	1,056,481
Total outstanding share-based compensation units	27,756,419	31,345,688

The following table summarizes the Company's share-based compensation expense for the years ended December 31, 2025 and 2024:

(\$ 000s)	Year Ended December 31, 2025	Year Ended December 31, 2024
Equity settled		
Stock options	345	448
Cash settled		
RSUs	11,744	1,753
DSUs	837	202
Total share-based compensation expense ⁽¹⁾	12,926	2,403
RSUs capitalized	90	156
Total share-based compensation	13,016	2,559

(1) The non-cash portion of the share-based compensation expense was \$7.1 million for the year ended December 31, 2025 (December 31, 2024 - \$1.5 million).



Stock options

Pursuant to the Company's Stock Option Plan, the Board of Directors may grant options to directors, officers, employees and other service providers. The aggregate number of shares that may be reserved for issuance pursuant to stock options may not exceed 10% of the shares issued and outstanding as at the time of granting. Stock options expire not more than five years from the date of grant, or earlier if the individual ceases to be associated with the Company.

The changes in options outstanding and the related weighted average exercise prices for the years ended December 31, 2025 and 2024 were as follows:

	Options	Weighted Average Exercise Price (\$)
Balance, December 31, 2023	4,416,690	0.73
Granted	3,572,075	0.30
Exercised	(24,000)	0.30
Cancelled/forfeited	(260,684)	0.70
Expired	(755,606)	0.89
Balance, December 31, 2024	6,948,475	0.49
Granted	1,320,750	0.65
Exercised	(292,628)	0.39
Cancelled/forfeited	(1,081,388)	0.60
Expired	(609,000)	0.86
Balance, December 31, 2025	6,286,209	0.48

The following table summarizes stock options outstanding and exercisable at December 31, 2025:

Range of Exercise Price (\$)	Stock Options Outstanding			Stock Options Exercisable		
	Number of Outstanding Stock Options	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price (\$)	Number of Exercisable Stock Options	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price (\$)
0.30 – 0.43	3,729,959	3.10	0.30	1,866,853	2.53	0.30
0.44 – 0.61	765,000	2.67	0.57	459,000	2.67	0.57
0.62 – 0.95	1,320,750	4.67	0.65	264,150	4.67	0.65
0.96 – 1.28	470,500	1.68	1.25	400,900	1.68	1.25
Total	6,286,209	3.27	0.48	2,990,903	2.62	0.50

The weighted average fair value of options granted in 2025 was \$0.35 (December 31, 2024 - \$0.18). The following table outlines the assumptions used in the Black-Scholes option-pricing model to calculate the weighted average fair value of the stock options granted during 2025 and 2024, respectively:

	2025	2024
Risk-free interest rate	2.7%	3.2%
Expected life (years)	3.50	3.50
Volatility	76.08%	83.60%
Forfeiture rate	16.17%	16.25%

Restricted share units

RSU awards are granted to employees and vest evenly over a period of three years, with the first payment occurring on the first anniversary. Upon vesting, the holder receives a cash payment based on the five-day VWAP of the vested RSU. During the year end December 31, 2025, 8.1 million (December 31, 2024 – 17.1 million) RSUs were granted resulting in a current and long-term compensation liability at December 31, 2025 of \$5.3 million and \$2.6 million, respectively (December 31, 2024 - \$1.2 million and \$0.7 million) calculated using a December 31, 2025 five-day VWAP of \$0.90 per share (December 31, 2024 - \$0.26). The current portion is included in accounts payable and the long-term portion is included in other amounts payable on the statements of financial position.



The following table summarizes the Company's RSU awards for the years ended December 31, 2025 and 2024:

	2025	2024
Balance, January 1	23,340,732	11,203,694
Granted	8,065,728	17,126,570
Exercised/released	(8,412,189)	(3,711,736)
Cancelled/forfeited	(3,158,283)	(1,277,796)
Balance, December 31	19,835,988	23,340,732

Deferred share units

DSU awards are issued to Directors quarterly and vest immediately, with payment occurring on the applicable director's termination date. Annually, each Director elects a portion of their total base compensation to be received in DSUs. On the termination date the holder receives a cash payment based on the five-day VWAP multiplied by the number of outstanding DSUs. The DSU liability of \$0.6 million (December 31, 2024 - \$0.3 million) was calculated using the five-day VWAP as of December 31, 2025 of \$0.90 per share (December 31, 2024 - \$0.26 per share). The entire DSU balance is current and is included in accounts payable.

The following table summarizes the Company's DSU awards for the years ended December 31, 2025 and 2024:

	2025	2024
Balance, January 1	1,056,481	247,459
Granted	577,741	809,022
Exercised/released	(669,296)	-
Balance, December 31	964,926	1,056,481

16. Finance Expense

The following is a summary of finance expense:

(\$ 000s)	Year ended December 31, 2025	Year Ended December 31, 2024
Cash portion of interest expense	18,385	20,853
Non-cash interest paid in kind (Note 10)	1,577	3,901
	19,962	24,754
Accretion of financing costs (Note 10)	4,913	4,893
Accretion of decommissioning obligations (Note 12)	2,590	2,381
Interest on lease liabilities (Note 9)	544	362
Other charges	427	196
Total finance expense	28,436	32,586

17. Deferred Taxes

The tax provision differs from the amount computed by applying the combined federal and provincial income tax rates to the Company's net income (loss) before taxes as follows:

(\$ 000s)	Year Ended December 31, 2025	Year Ended December 31, 2024
Income (loss) before taxes	2,328	(55,272)
Combined federal and provincial income tax rate	23.0%	23.0%
Computed income tax expense (benefit)	535	(12,713)
Tax effects of		
Non-deductible share-based compensation	79	103
Non-deductible expense	2,700	(945)
Other	2,067	(523)
Change in unrecognized deferred tax assets	1,700	(2,210)
Change in tax rates	118	(79)
Total deferred tax expense (recovery)	7,199	(16,367)



The following table summarizes the components of the deferred income tax asset:

(\$ 000s)	2024	Recognized in net income	Recognized in Equity	2025
Deferred tax assets				
Non-capital losses	80,483	(3,073)	-	77,410
Decommissioning obligations	38,998	(4,628)	-	34,370
Other	6,895	(4,111)	720	3,504
Deferred tax liabilities				
PP&E	(27,095)	4,515		(22,580)
Risk management contracts	(15,527)	-	7,862	(7,665)
Other	(112)	98	-	(14)
Net deferred tax assets	83,642	(7,199)	8,582	85,025

Deferred income tax assets are recognized for tax loss and tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. As at December 31, 2025, the Company has an unrecognized deferred tax asset in the amount of \$0.4 million (2024 - \$1.4 million). The Company expects to have sufficient taxable profits in the future in order to realize the current benefit of \$85.0 million. Included in this tax basis are estimated non-capital loss carry forwards of \$336 million (December 31, 2024 - \$349 million) that expire in the years 2034 through 2045.

18. Financial Instruments and Risk Management

Financial instruments at December 31, 2025, consist of cash, accounts receivable, accounts payable, other amounts payable, current and long-term debt, risk management contracts, and warrant liability. Risk management contracts and warrant liability are classified as Level 2 measurements. The carrying value of long-term debt approximates its fair value as it bears interest at market rates. The Company does not have any recurring fair value measurements classified as Level 3. There were no transfers between the levels in the fair value hierarchy for the year ended December 31, 2025. The Company's accounts receivable, deposits, accounts payable and other amounts payable approximate their fair values due to the short-term nature of these instruments.

The Company has exposure to counterparty credit risk, liquidity risk and market risk. Effective management of these risks is a critical success factor in managing organization and shareholder value; risk management strategies, policies and limits ensure risks and exposures are aligned to the Company's business strategy and risk tolerance. The Board of Directors is responsible for providing risk management oversight and oversees how management assesses and monitors risk. The following analysis provides an assessment of those risks as at December 31, 2025.

Counterparty credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Company's accounts receivable from hydrocarbon sales, partners in jointly owned assets, counterparties to derivative financial contracts and third-party processing customers.

Substantially all of the Company's accounts receivable balance is with petroleum and natural gas marketers, joint venture partners, derivative financial contract counterparties, and third-party processing customers. Sales from petroleum and natural gas marketers are normally collected on the 25th day of the month following the sale. Amounts due from joint venture and third-party partners are collected based on billing cycles. The Company's credit policy includes parameters to mitigate credit risk associated with these balances. The Company has not experienced any material collection issues with its counterparties. The Company's financial risk management contracts are held with one counterparty, which is a large reputable company; management has concluded that credit risk associated with this contract is low.

Accounts receivable from third party processing customers and partners in jointly owned assets are typically collected within one to three months of the bill being issued. The Company attempts to mitigate the credit risk from joint venture partners in jointly owned assets by, where possible, transacting with creditworthy counterparties and where relevant by obtaining partner approval of significant capital expenditures prior to execution. Timing and risks associated with accounts receivable balances can be impacted by industry factors such as commodity price fluctuations, limited capital availability and unsuccessful drilling programs.

The Company has the ability to obtain collateral, in the form of parental guarantees and letters of credit, from customers when appropriate to support mitigating counterparty risk. The Company can also cash call partners for major projects and does have the ability, in most cases, to withhold production and/or net settle from these partners in the event of non-payment.



For the year ended December 31, 2025, the Company had sales to three customers (year ended December 31, 2024 – two customers) which individually constituted more than 10% of total commodity sales. Sales to these major customers totaled \$150.0 million in 2025 (year ended December 31, 2024 - \$177.3 million). As at December 31, 2025, all accounts receivable balances from the Company's three major customers were within agreed credit terms.

The carrying amount of cash and cash equivalents, accounts receivable and risk management contracts represents the maximum credit exposure to the Company at December 31, 2025. The Company's cash and cash equivalents are held with counterparties, which are large reputable financial institutions; management has therefore concluded that credit risk associated with the investments is low. As at December 31, 2025 and 2024, the Company's accounts receivables consisted of:

(\$ 000s)	2025	2024
Petroleum and natural gas marketers	28,186	24,645
Partners in jointly owned assets	15,322	23,106
Other (primarily government entities)	2,322	2,415
Total	45,830	50,166

As at December 31, 2025 and 2024, the Company's accounts receivables were aged as follows:

(\$ 000s)	2025	2024
Current (less than 90 days)	42,465	41,213
Past due (more than 90 days)	3,365	8,953
Total	45,830	50,166

The Company has assessed the past due receivables and determined that as at December 31, 2025, a provision of \$0.6 million was required (December 31, 2024 – \$0.6 million).

Liquidity and funding risk

Liquidity and funding risk is the risk that the Company may be unable to obtain sufficient cash or its equivalent in a timely and cost-effective manner in order to meet its commitments as they become due. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements. The Company manages its liquidity risk by forecasting cash flows over a twelve-month rolling time period; these requirements are then addressed through management of Cavvy's capital structure, being its share capital and debt facilities, and adjustments are made based on the funds available to the Company.

The timing of cash outflows relating to financial liabilities as at December 31, 2025, is outlined in the table below:

(\$ 000s)	2026	2027	2028	2029	Thereafter	Total
Accounts payable and accrued liabilities	77,520	-	-	-	-	77,520
Other amounts payable	-	2,293	333	-	-	2,626
Long-term debt ⁽¹⁾	9,704	144,742	-	-	-	154,446
Interest on long-term debt ⁽¹⁾⁽²⁾⁽³⁾	15,325	4,692	-	-	-	20,017
Lease payments	1,826	1,356	1,017	973	919	6,091
December 31, 2025	104,375	153,083	1,350	973	919	260,700

(1) Amortization and interest payments denominated in USD are estimated using the spot rate at December 31, 2025.

(2) Does not include interest on fluctuating outstanding Revolving Loan balance of \$24.8 million.

(3) Interest is calculated using forward SOFR curve plus 6.75% per annum.

The Company's significant outstanding financial liabilities consist of accounts payable and accrued liabilities, which are expected to be funded as they come due by cash provided by operating activities.

Capital management

The Company's capital structure is comprised of shareholders' equity, debt, and working capital. The Company manages its capital structure and makes adjustments in light of changes in strategy, economic and market conditions and the risk characteristics of the underlying assets. The Company's objective when managing capital is to ensure it has sufficient funds to maintain and develop its assets, accelerate debt repayment, develop resource opportunities and meet its commitments. To maintain or adjust the capital structure, the Company may issue shares, obtain additional debt facilities and/or consider strategic alliances including joint ventures.

The Company funds its share of commitments from existing cash balances and from operating activities or by issuing shares and various debt facilities. The Company may require additional financing to advance growth opportunities. Management will explore all options to achieve the appropriate funding levels.



Funds flow from operations

The Company uses funds flow from operations, a non-GAAP measure as a reporting metric to assess its liquidity, capital structure and financing requirements. Funds flow from operations is used to monitor and assess liquidity and the flexibility of the Company's capital structure by providing management and investors with a measure of the cash flows generated by the Company's assets available to meet financial obligations. Funds flow from operations is not a standardized measure and therefore may not be comparable with the calculation of similar measures by other entities.

The calculation of funds flow from operations is as follows:

(\$ 000s)	Year Ended December 31, 2025	Year Ended December 31, 2024
Cash provided by operating activities	36,453	7,132
Settlement of decommissioning obligations	7,431	5,549
Changes in non-cash working capital	18,741	6,434
Funds flow from operations	62,625	19,115

Net debt

The Company uses net debt to assess the Company's point in time liquidity and to monitor its capital structure and financing requirements. Historically, the Company has prioritized capital allocation toward reducing net debt and intends to continue doing so until its internal leverage targets are achieved. Net debt is not a standardized measure and therefore may not be comparable with the calculation of similar measures by other entities.

The calculation of net debt is as follows:

(\$ 000s)	Year Ended December 31, 2025	Year Ended December 31, 2024
Long-term debt	(141,144)	(157,902)
Current portion of long-term debt	(9,704)	(9,885)
Adjusted working capital deficit ⁽¹⁾	(19,769)	(29,777)
Net debt	(170,617)	(197,564)

(1) Adjusted working capital is comprised of cash, accounts receivable and prepaid expenses and other less accounts payable and accrued liabilities.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market conditions. Market risk is comprised of three types of risk: commodity price risk, interest rate risk and currency risk.

Commodity price risk

The Company's natural gas, condensate, NGL and sulphur sales, and electricity purchase, are directly subject to fluctuations in underlying commodity prices. Fluctuations in commodity prices and differentials may also be impacted by changes in the CAD to USD exchange rate. Commodity price volatility may impact the Company's operating cash flows, its ability to attract investment. The Company continually evaluates options to manage commodity price volatility and risk.

The Company utilizes fixed price physical delivery contracts and various financial derivative instruments as part of its overall risk management strategy to assist in managing the exposure to commodity price, foreign exchange and interest rate risk. These financial instruments are not used for speculative purposes.

Physical contracts are considered normal purchase or sales contracts and are not included in the risk management account on the statement of financial position but recognized in petroleum and natural gas revenue or operating expense as contracts are settled. The Company had the following physical commodity sales contracts and power contracts in place at December 31, 2025:

Type of contract	Quantity	Time Period	Average Price
Fixed Price - Natural Gas Sales	8,000 GJ/d	Jan 2026	CAD \$3.37/GJ
Fixed Price - Natural Gas Sales	5,000 GJ/d	Feb 2026 - Oct 2026	CAD \$3.31/GJ
Fixed Price - Power Purchases	55 MW	Jan 2026 - Dec 2026	CAD \$71.80/MWh
Fixed Price - Power Purchases	33 MW	Jan 2027 - Dec 2027	CAD \$67.68/MWh
Fixed Price - Sulphur Sales	1/3 of Sulphur Sales	Jan 2026 - Dec 2026	US \$225/mt
Collar - Sulphur Sales	1/3 of Sulphur Sales	Jan 2026 - Dec 2026	US \$205.00 - \$250.00/mt



On January 5, 2026, as part of the fixed price and collar sulphur sales contracts, the Company received a US \$26.7 million prepayment for certain forecasted sulphur deliveries from January 1, 2026 to June 30, 2026.

The Company had the following financial risk management contracts or cashflow hedges, to which hedge accounting is applied, in place as at December 31, 2025:

Type of contract	Quantity	Time Period	Contract Price
AECO Natural Gas Swap	73,500 GJ/d	Jan 2026 - May 2026	CAD \$3.32/GJ
AECO Natural Gas Swap	53,340 GJ/d	Jun 2026	CAD \$3.40/GJ
AECO Natural Gas Swap	63,340 GJ/d	Jul 2026 - Mar 2027	CAD \$3.41/GJ
AECO Natural Gas Swap	42,000 GJ/d	Apr 2027 - May 2027	CAD \$3.40/GJ
WTI Crude Oil Collar	917 bbl/d	Jan 2026 - Dec 2026	CAD \$80.00 - \$90.75/bbl
WTI Crude Oil Collar	761 bbl/d	Jan 2027 - May 2027	CAD \$80.00 - \$90.75/bbl
WTI Crude Oil Swap	549 bbl/d	Jan 2026 - Dec 2026	CAD \$92.82/bbl
WTI Crude Oil Swap	828 bbl/d	Jan 2027 - Dec 2027	CAD \$90.57/bbl
WTI Crude Oil Swap	768 bbl/d	Jan 2028 - Jun 2028	CAD \$88.45/bbl

During 2025, the Company monetized a portion of its January 2026 to May 2027 AECO Natural Gas Swaps representing a weighted average of 24,862 GJ/d during that period and re-structured a portion of the remaining AECO Natural Gas Swaps during the same period from \$3.78/GJ to \$3.40/GJ. The monetization resulted in net proceeds of \$10.2 million, which were recognized in net income. Net proceeds were utilized to reduce long term debt.

The Company entered into the following physical and financial risk management contracts subsequent to December 31, 2025:

Type of contract	Quantity	Time Period	Contract Price
Fixed Price - Power Purchases	8 MW	Jan 2027 - Dec 2027	CAD \$53.01 /MWh
Fixed Price - Power Purchases	10 MW	Jan 2028 - Dec 2028	CAD \$61.00 /MWh
WTI Crude Oil Swap	250 bbl/d	Oct 2026 - Dec 2026	CAD \$86.10 /bbl
WTI Crude Oil Swap	650 bbl/d	Jan 2027 - Mar 2027	CAD \$89.27 /bbl
WTI Crude Oil Swap	400 bbl/d	Apr 2027 - Dec 2027	CAD \$91.25 /bbl
WTI Crude Oil Swap	600 bbl/d	Jan 2028 - Dec 2028	CAD \$86.17 /bbl
WTI Crude Oil Swap	600 bbl/d	Jan 2029 - Dec 2029	CAD \$84.67 /bbl

Changes in fair value of risk management asset and liabilities for the years ended December 31, 2025 and 2024 are as follows

(\$ 000s)	2025	2024
Risk management asset, balance January 1	67,706	64,415
Changes in fair value of financial derivatives – profit or loss	(520)	520
Change in fair value of cash flow hedges – OCI	(34,034)	2,771
Risk management asset, balance December 31	33,152	67,706
Risk management asset – current	24,990	44,161
Risk management asset – long-term	8,162	23,545

The following table summarizes changes in other comprehensive income for the years ended December 31, 2025 and 2024:

(\$ 000s)	Year Ended December 31, 2025	Year Ended December 31, 2024
Unrealized (loss) gain on cash flow hedges	(34,035)	2,772
Deferred tax on unrealized cash flow hedges	7,862	(653)
Realized gain on cash flow hedges	76,443	66,890
Tax on realized cash flow hedges	(17,831)	(15,385)
Change in fair value of cash flow hedges, net of tax	32,439	53,624
Reclassification of realized gain to net (loss) income, net of tax	(58,612)	(51,505)
OCI	(26,173)	2,119

The following table summarizes the changes to accumulated other comprehensive income at December 31, 2025 and 2024:

(\$ 000s)	2025	2024
AOCI Balance, January 1	55,163	53,044
OCI	(26,173)	2,119
AOCI Balance, December 31	28,990	55,163



The primary source of potential hedge ineffectiveness arises because C5 production is hedged against the WTI price and C5 prices do not move in perfect correlation with WTI crude oil prices. The Company did not identify any hedge ineffectiveness as of December 31, 2025. The hedge ratio, representing the relationship between the quantity of the hedging instrument and the quantity of the hedged item in terms of their relative weighting is 1:1 at December 31, 2025.

The following table illustrates the effects of potential movement in commodity prices on net income due to the changes in the fair value of financial derivative contracts in place at December 31, 2025, and 2024. The sensitivity is based on a 10% increase and 10% decrease in forward price curves at December 31, 2025 and 2024.

(\$ 000s)	10% Decrease in Price		10% Increase in Price	
	2025	2024	2025	2024
Increase (decrease) to OCI				
Crude Oil - WTI (CAD)	7,589	13,260	(7,264)	(13,694)
Natural Gas - AECO (CAD)	8,413	19,182	(8,413)	(19,182)

Interest rate risk

Interest rate risk is the risk that future cashflows will fluctuate as a result of changes in market interest rate. For the year ended December 31, 2025, the Company's primary interest rate exposure was the variable rate Senior Facility. A 1.0% change in the SOFR rate would result in a \$1.2 million change in interest expense for the year ended December 31, 2025 (December 31, 2024 - \$1.4 million).

Currency risk

Currency risk is the risk that cashflows will fluctuate as a result of changes in foreign currencies and CAD. A small portion of the Company's accounts receivable, accounts payable, accrued liabilities and commitments are denominated in USD, however the impact of currency fluctuations are immaterial to these items. At December 31, 2025, the Company's primary foreign exchange risk exposure was its USD denominated Senior Facility and Subordinate Notes. For the year ended December 31, 2025 a 5% change in the foreign exchange rates between these two currencies would result in a CAD \$6.5 million (December 31, 2024 - \$5.9 million) impact on interest expense and \$8.0 million (December 31, 2024 - \$9.1 million) impact in foreign exchange gain (loss) related to the debt valuation.

Periodically, the Company enters into currency hedges, which provide the right but not the obligation to purchase USD at a fixed exchange rate. These provide downside protection on cash flow risk associated with currency fluctuations between USD and CAD for a portion of scheduled debt service obligations denominated in USD.

19. Supplemental Disclosures

Presentation in the Statements of Loss and Comprehensive Loss

Cavvy's statements of loss and comprehensive loss are prepared primarily by nature of item, with the exception of employee compensation expense which is included in both operating and G&A expense.

The following table details the amount of total employee compensation expense included in operating and G&A expense:

(\$ 000s)	Year Ended December 31, 2025	Year Ended December 31, 2024
Operating	33,867	35,606
G&A	14,716	14,689
Total	48,583	50,295



Presentation in the Statements of Cash Flows

The following table provides a detailed breakdown of certain line items contained within cashflow from operating and investing activities:

(\$ 000s)	Year Ended December 31, 2025	Year Ended December 31, 2024
Changes in non-cash working capital		
Accounts receivable	4,336	11,357
Prepaid expenses and other	1,339	2,212
Inventories	(11)	(116)
Accounts payable and accrued liabilities	(23,436)	(23,766)
Total change in non-cash working capital	(17,772)	(10,313)
Relating to:		
Operating activities	(18,741)	(6,434)
Investing activities	969	(3,879)

20. Related Party Transactions

The Company's related parties include key management personnel, which consists of its executives and directors. None of the transactions with related parties involve special terms or conditions and no guarantees on payments were given or received. Outstanding balances are settled in cash or shares. Key management personnel compensation includes the following:

(\$ 000s)	Year Ended December 31, 2025	Year Ended December 31, 2024
Salaries and employee benefits ⁽¹⁾	3,525	2,731
Director's fees ⁽²⁾	659	680
Total salaries and benefits	4,184	3,411
Share-based compensation	345	447
Total key management personnel compensation	4,529	3,858

(1) This balance is inclusive of RSU awards, which are accounted for as share-based compensation.

(2) This balance is inclusive of DSU awards, which are accounted for as share-based compensation.

21. Commitments, Provisions and Contingencies

Commitments

The following is a summary of the Company's commitments as at December 31, 2025:

(\$ 000s)	2026	2027	2028	Thereafter	Total
Firm transportation	13,315	5,298	38	-	18,651

Provisions and Contingencies

The Company is involved in various claims and litigation arising in the normal course of business. While the outcome of these matters is uncertain and there can be no assurance that such matters will be resolved in the Company's favor, the Company does not currently believe that adverse outcomes in any of these pending or threatened proceedings would have a material adverse impact on its financial position or results of operations.