Condensed Consolidated Statements of Financial Position

In thousands of Canadian dollars		**June 30, 2026**	**December 31, 2025**
Assets			
Current assets			
Cash		**40,189**	5,799
Accounts receivable		**37,122**	45,830
Prepaid expenses and other		**6,493**	6,122
Inventories		**3,873**	3,783
Risk management contracts	(Note 12)	**22,291**	24,990
		109,968	86,524
Risk management contracts	(Note 12)	**-**	8,162
Property, plant, and equipment	(Note 5)	**360,129**	347,934
Exploration and evaluation assets		**8,104**	8,095
Right-of-use assets		**3,165**	3,396
Deferred income tax asset		**79,055**	85,025
Total assets		**560,421**	539,136
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**82,576**	77,520
Deferred revenue	(Note 10)	**47,517**	-
Current portion of decommissioning obligations	(Note 8)	**3,600**	7,900
Current portion of lease liabilities		**1,836**	1,826
Current portion of long-term debt	(Note 6)	**36,930**	9,704
Warrant liability	(Note 7)	**-**	12,877
		172,459	109,827
Other amounts payable		**7,158**	2,626
Risk management contracts	(Note 12)	**1,627**	-
Decommissioning obligations	(Note 8)	**162,538**	144,319
Lease liabilities		**2,431**	2,673
Long-term debt	(Note 6)	**44,407**	141,144
Total liabilities		**390,620**	400,589
Shareholders' equity			
Share capital	(Note 9)	**329,616**	307,182
Contributed surplus		**14,007**	13,922
Warrants	(Note 9)	**-**	1,349
Accumulated other comprehensive income		**19,386**	28,990
Deficit		**(193,208)**	(212,896)
Total shareholders' equity		**169,801**	138,547
Total liabilities and shareholders' equity		**560,421**	539,136

Commitments (Note 14)
See accompanying notes to the Interim Financial Statements.

Condensed Consolidated Statements of Income and Comprehensive Income (Loss)

In thousands of Canadian dollars		Three months ended June 30, 2026	2025	Six months ended June 30, 2026	2025
Revenue					
Natural gas, natural gas liquids and sulphur	(Note 10)	**87,694**	49,837	**171,503**	103,132
Royalties		**(8,186)**	(4,477)	**(17,886)**	(3,944)
		79,508	45,360	**153,617**	99,188
Processing and marketing		**12,152**	9,612	**24,444**	15,773
Other revenue		**116**	136	**239**	229
		91,776	55,108	**178,300**	115,190
Realized gain on risk management contracts	(Note 12)	**5,736**	16,710	**13,633**	37,825
Unrealized loss on risk management contracts	(Note 12)	**-**	(351)	**-**	(520)
		97,512	71,467	**191,933**	152,495
Expenses					
Operating		**43,655**	40,409	**91,471**	84,395
Transportation		**4,210**	4,918	**8,939**	9,582
General and administrative		**5,248**	5,916	**11,528**	11,492
Finance	(Note 11)	**5,855**	6,903	**11,797**	14,731
Depletion and depreciation	(Note 5)	**9,556**	14,257	**19,170**	27,086
Share-based compensation		**5,625**	1,619	**12,313**	3,061
Foreign exchange loss (gain)		**1,658**	(8,157)	**3,718**	(8,362)
Revaluation of warrant liability	(Note 7)	**-**	438	**4,454**	1,178
		75,807	66,303	**163,390**	143,163
Net income before taxes		**21,705**	5,164	**28,543**	9,332
Deferred income tax expense		**5,555**	1,017	**8,855**	2,519
Net income		**16,150**	4,147	**19,688**	6,813
Other comprehensive income (loss), net of income tax					
Change in fair value of cash flow hedges, net of tax		**3,585**	34,913	**894**	12,749
Reclassification of realized gain to net (loss) income, net of tax		**(4,416)**	(12,840)	**(10,498)**	(28,800)
Total comprehensive income (loss)		**15,319**	26,220	**10,084**	(9,238)
Net income per share					
Basic	(Note 9)	**0.05**	0.01	**0.07**	0.02
Diluted	(Note 9)	**0.05**	0.01	**0.06**	0.02

See accompanying notes to the Interim Financial Statements.

Condensed Consolidated Statements of Changes in Equity

Unaudited, in thousands of Canadian dollars	Share Capital	Contributed Surplus	Warrants	Deficit	Accumulated Other Comprehensive Income (Loss)	Total Equity
As at December 31, 2024	306,306	13,635	1,349	(208,025)	55,163	168,428
Share-based compensation	-	345	-	-	-	345
Common shares issued on stock option exercise (Note 9)	156	(58)	-	-	-	98
Tax effect of share issue costs	720	-	-	-	-	720
Net loss	-	-	-	(4,871)	-	(4,871)
Other comprehensive loss, net of income tax	-	-	-	-	(26,173)	(26,173)
As at December 31, 2025	307,182	13,922	1,349	(212,896)	28,990	138,547
Share-based compensation	-	179	-	-	-	179
Common shares issued on stock option exercise (Note 9)	254	(94)	-	-	-	160
Common shares issued on warrant exercise (Note 7 & 9)	22,180	-	(1,349)	-	-	20,831
Net income	-	-	-	19,688	-	19,688
Other comprehensive loss, net of income tax	-	-	-		(9,604)	(9,604)
As at June 30, 2026	**329,616**	**14,007**	-	**(193,208)**	**19,386**	**169,801**

See accompanying notes to the Interim Financial Statements.

Cavvy ENERGY

Condensed Consolidated Statements of Cash Flows

In thousands of Canadian dollars		Three months ended June 30, 2026	2025	Six months ended June 30, 2026	2025
Operating activities					
Net income		**16,150**	4,147	**19,688**	6,813
Unrealized loss on risk management contracts		**-**	351	**-**	520
Depletion and depreciation	(Note 5)	**9,556**	14,257	**19,170**	27,086
Non-cash financing costs	(Note 6)	**1,338**	1,218	**2,633**	3,969
Accretion of decommissioning obligations	(Note 8)	**714**	671	**1,332**	1,278
Non-cash share-based compensation		**6,142**	62	**12,743**	158
Unrealized loss (gain) on foreign exchange		**2,064**	(8,256)	**4,325**	(8,450)
Revaluation of warrant liability	(Note 7)	**-**	438	**4,454**	1,178
Deferred income tax expense		**5,555**	1,017	**8,855**	2,519
Settlement of decommissioning obligations	(Note 8)	**(1,084)**	(269)	**(7,884)**	(537)
Other amounts payable		**348**	597	**835**	1,138
Changes in non-cash working capital	(Note 13)	**31,411**	(12,634)	**51,455**	(11,461)
Cash provided by operating activities		**72,194**	1,599	**117,606**	24,211
Investing activities					
Additions to property, plant and equipment	(Note 5)	**(3,787)**	(2,391)	**(10,089)**	(8,929)
Additions to exploration and evaluation assets		**(7)**	-	**(9)**	(4)
Changes in non-cash working capital	(Note 13)	**1,784**	(2,603)	**498**	(73)
Cash used in investing activities		**(2,010)**	(4,994)	**(9,600)**	(9,006)
Financing activities					
Proceeds on exercise of warrants	(Note 9)	**-**	-	**3,500**	-
Exercise of stock options		**83**	12	**159**	12
Share issue costs		**-**	-	**-**	(14)
Draw on long-term debt		**-**	4,163	**-**	4,163
Repayment of long-term debt	(Note 6)	**(39,190)**	(5,291)	**(76,472)**	(20,736)
Payments on lease obligations		**(388)**	(330)	**(803)**	(639)
Cash used in financing activities		**(39,495)**	(1,446)	**(73,616)**	(17,214)
Increase (Decrease) in cash and cash equivalents		**30,689**	(4,841)	**34,390**	(2,009)
Cash and cash equivalents, beginning of period		**9,500**	11,408	**5,799**	8,576
Cash and cash equivalents, end of period		**40,189**	6,567	**40,189**	6,567
Cash paid:					
Interest paid in cash	(Note 11)	**3,531**	4,744	**7,475**	8,720

See accompanying notes to the Interim Financial Statements.

Notes to the Condensed 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.

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.

Many of the Company's activities involve jointly owned assets. The Interim Condensed Consolidated Financial Statements ("Interim Financial Statements") reflect only the Company's proportionate interest in such activities. The majority of Cavvy's assets and business activities are held in a wholly owned subsidiary, Cavvy Production Ltd ("CPL"). All inter-entity transactions have been eliminated upon consolidation. 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.

These Interim Financial Statements were approved by the Board of Directors of Cavvy on August 11, 2026.

2. Basis of Presentation

Statement of compliance

These unaudited Interim Financial Statements and the notes thereto have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards") applicable to the preparation of interim financial statements, including International Accounting Standard 34, Interim Financial Reporting. These Interim Financial Statements have been prepared following the same accounting policies and methods of computation as the Company's audited Consolidated Financial Statements for the year ended December 31, 2025 (the "Consolidated Financial Statements"). Certain information and disclosures normally required to be included in the notes to the Consolidated Financial Statements have been condensed or omitted. Accordingly, these Interim Financial Statements should be read in conjunction with the Consolidated Financial Statements. Comparative amounts have been reclassified to match the current period presentation.

3. Material Accounting Judgements and Estimates

The preparation of these Interim Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, revenue and expenses, and related disclosures with respect to contingent assets and liabilities. Cavvy bases judgments, estimates and assumptions on current facts, historical experience and various other factors that are reasonable under the circumstances. The economic environment could also impact certain judgments, estimates and discount rates necessary to prepare these Interim Financial Statements, including significant estimates and judgments used in assessing for impairment indicators in the current economic environment. Actual results could differ materially from estimates and assumptions. Cavvy reviews estimates and underlying assumptions on an ongoing basis and makes revisions as determined necessary by management. Such revisions are recognized in the period in which the estimates are revised and may impact future periods as well.

Critical accounting judgments and estimates used in preparing the Interim Financial Statements are described in Cavvy's Consolidated Financial Statements for the year ended December 31, 2025.

4. New Accounting Policies and Standards

New Accounting Policies

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 took effect on January 1, 2026. These amendments did not have an impact on the Interim 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. The Company is currently in the process of assessing its impact on its Consolidated Financial Statements.

5. Property, Plant and Equipment

The following table summarizes the Company's property, plant and equipment balances at June 30, 2026 and December 31, 2025:

($ 000s) **Cost**	**June 30, 2026**	**December 31, 2025**
Balance, January 1	**684,100**	675,857
Additions[1]	**10,089**	23,337
Change in decommissioning obligations (Note 8)	**20,471**	(15,094)
Balance, end of period	**714,660**	684,100

Accumulated Depletion and Depreciation	**June 30, 2026**	**December 31, 2025**
Balance, January 1	**336,166**	297,130
Depletion and depreciation	**18,365**	39,036
Balance, end of period	**354,531**	336,166

Net Book Value	**June 30, 2026**	**December 31, 2025**
Balance, January 1	**347,934**	378,727
Balance, end of period	**360,129**	347,934

(1) $1.1 million of G&A and $1.3 million of share-based compensation expense was capitalized to property, plant and equipment during the period ended June 30, 2026 (December 31, 2025 – $2.8 million of G&A and $0.1 million of share-based compensation expense).

At June 30, 2026, future development costs of the Company's proved plus probable reserves of $338.3 million (December 31, 2025 - $341.5 million) were included in the depletion calculations.

At June 30, 2026, the Company did not identify any indicators of impairment or potential impairment reversals on any of the cash-generating units, thus no impairment test was required.

6. Long-Term Debt

The following tables summarize the Company's available liquidity and long-term debt balances as of June 30, 2026:

($ 000s)	Interest Rate (%)	Availability (USD)	Principal outstanding (USD)	Principal outstanding (CAD) (1)	Unamortized financing fees (CAD) (1)	Carrying value (CAD) (1)
Senior Facility						
Revolving Loan USD $22,000 (1)(2)	SOFR+6.75	22,000	-	-	-	-
Term Notes USD $88,500 (1)	SOFR+6.75	-	27,510	39,089	-	39,089
Subordinated Notes USD $33,606 (1)	13.00	-	33,606	47,751	(3,344)	44,407
Total, June 30		**22,000**	**61,116**	**86,840**	**(3,344)**	**83,496**

(1) Converted to CAD using the month end exchange rate of 1.4209 at June 30, 2026.

($ 000s)	Senior Facility (i)				
	Revolving Loan	Term Notes	Senior Facility Financing Costs	Subordinated Notes (ii)	Total
Carrying value, January 1	24,808	87,986	(3,598)	41,652	**150,848**
Repayment of long-term debt	(25,097)	(51,375)	-	-	**(76,472)**
Accretion of financing costs (Note 11)	-	-	1,439	1,194	**2,633**
Foreign exchange loss (1)	289	2,478	-	1,561	**4,328**
Carrying value, June 30	**-**	**39,089**	**(2,159)**	**44,407**	**81,337**
Current	**-**	**39,089**	**(2,159)**	**-**	**36,930**
Long-term	**-**	**-**	**-**	**44,407**	**44,407**

(1) Converted to CAD using the month end exchange rate of 1.4209 at June 30, 2026.

i. Senior Facility

The Senior Facility is subject to an excess cash flow sweep, which is based on a prescriptive formula and was not triggered at June 30, 2026 due to debt payments made during the quarter. 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 effective interest rate on the Term Notes for the three-month period ended June 30, 2026 was 10.5% compared to 11.2% for the comparative period ended June 30, 2025.

The Revolving Loan is subject to a standby fee of 0.5% per annum payable quarterly on the undrawn portion.

ii. Subordinated Notes

The subordinated notes are repayable in full on September 13, 2027. Prepayment of the subordinated notes would result in a prepayment penalty equal to the interest that would have been incurred between the prepayment date and the date of maturity.

The effective interest rate on the Subordinated Notes for the period ended June 30, 2026, was 19.6% compared to 19.6% for the comparative period ended June 30, 2025.

Covenants

As at June 30, 2026, the Company was in compliance with all covenants.

Letter of credit guarantee facility

Effective June 26, 2026, the guarantee facility from Export Development Canada was renewed at $15.0 million (an increase from $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 June 30, 2026 (December 31, 2025 - $10.0 million).

7. Warrant Liability

During the first quarter of 2026, all warrants previously classified as a liability were exercised on a cashless basis and reclassified to equity. The warrant liability was remeasured using the five-day volume-weighted average share price of $1.31 per share and subsequently derecognized, with the corresponding amount recorded in share capital.

The following table reconciles the warrant liability at June 30, 2026 and December 31, 2025:

($ 000s)	2026	2025
Balance, January 1	**12,877**	2,773
Change in fair value	**4,454**	10,104
Exercise of liability-classified warrants (Note 9)	**(17,331)**	-
Balance, end of period	**-**	**12,877**

8. Decommissioning Obligations

The following table summarizes the Company's decommissioning obligations at June 30, 2026 and December 31, 2025:

($ 000s)	2026	2025
Balance, January 1	**152,219**	172,154
Change in cost estimates	**11,465**	3,599
Change in discount rate	**9,006**	(18,693)
Settlement of obligations	**(7,884)**	(7,431)
Accretion	**1,332**	2,590
Balance, end of period	**166,138**	152,219
Expected to be incurred within one year	**3,600**	7,900
Expected to be incurred beyond one year	**162,538**	144,319

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 June 30, 2026, the Company estimates the total undiscounted amount of cash flows required to settle its decommissioning obligations is approximately $296.9 million (December 31, 2025 - $292.6 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 June 30, 2026, the inflation adjusted risk-free discount rate was 1.71% (December 31, 2025 - 1.87%).

The following table illustrates the impact of changes in the discount rate on the decommissioning obligation at June 30, 2026 and December 31, 2025:

	Increase		Decrease	
($ 000s)	2026	2025	2026	2025
Change in Rate (+/- 0.5%)	**(23,064)**	(21,736)	**28,485**	26,837

9. Share Capital

The following table outlines the issued and outstanding shares at June 30, 2026 and December 31, 2025:

($ 000s except per share amounts)	Common shares	2026 $	Common shares	2025 $
Balance, January 1	**290,680,270**	**307,182**	290,387,642	306,306
Stock option exercise	**529,000**	**254**	292,628	156
Liability-classified warrant exercise (Note 7)	**13,030,536**	**17,331**	-	-
Equity-classified warrant exercise	**5,120,235**	**4,849**	-	-
Tax effect of share issue costs	**-**	**-**	-	720
Balance, end of period	**309,360,041**	**329,616**	290,680,270	307,182

On March 12, 2026, all 5,000,000 equity-classified warrants were exercised at an exercise price of $0.68 per share, 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:

	Three months ended June 30,		Six months ended June 30,	
	2026	2025	2026	2025
Weighted average common shares, basic	**309,174,942**	290,401,488	**300,354,091**	290,394,603
Dilutive effect of options [(1)]	**3,513,877**	140,238	**3,064,116**	41,415
Weighted average common shares, diluted	**312,688,819**	290,541,726	**303,418,207**	290,436,018

(1) For the three and six month periods ended June 30, 2026, nil and 0.1 million options, respectively were excluded from the diluted weighted average shares calculation as they were anti-dilutive. For the three and six months ended June 30, 2025, 6.4 million and 6.5 million options, respectively and all warrants were excluded from the diluted weighted average shares calculation as they were anti-dilutive.

10. Natural Gas, Natural Gas Liquids and Sulphur Revenue

The Company's natural gas, natural gas liquids and sulphur revenue is set out below:

	Three months ended June 30,		Six months ended June 30,	
($ 000s)	2026	2025	2026	2025
Natural gas	**15,771**	20,664	**37,688**	42,567
Condensate	**22,839**	19,303	**41,907**	40,315
NGLs	**6,268**	6,543	**13,774**	15,277
Sulphur	**42,816**	3,327	**78,134**	4,973
Total natural gas, natural gas liquids and sulphur revenue	**87,694**	49,837	**171,503**	103,132

On January 5, 2026, as part of the 2026 sulphur pricing agreement, the Company received a prepayment representing approximately two-thirds of forecasted sulphur deliveries from January 1, 2026 to June 30, 2026. The entirety of this amount has been recognized as revenue as of June 30, 2026.

On June 30, 2026, the Company received an additional USD $33.4 million (CAD $47.5 million) prepayment representing approximately two-thirds of forecasted sulphur deliveries for the period from July 1, 2026, to December 31, 2026. This amount was recorded as deferred revenue on the balance sheet and will be recognized as revenue as the associated sulphur deliveries are made.

11. Finance Expense

The following is a summary of finance expense:

	Three months ended June 30,		Six months ended June 30,	
($ 000s)	2026	2025	2026	2025
Cash portion of interest expense	**3,531**	4,744	**7,475**	8,720
Non-cash interest paid in kind	**-**	-	**-**	1,577
	3,531	4,744	**7,475**	10,297
Accretion of financing costs (Note 6)	**1,338**	1,218	**2,633**	2,392
Accretion of decommissioning obligations (Note 8)	**714**	671	**1,332**	1,278
Interest on lease liabilities	**134**	134	**274**	265
Other charges	**138**	136	**83**	499
Total finance expense	**5,855**	6,903	**11,797**	14,731

12. Financial Instruments and Risk Management

Financial instruments at June 30, 2026, consist of cash, accounts receivable, accounts payable, other amounts payable, current and long-term debt and risk management contracts. Risk management contracts 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 period ended June 30, 2026. 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 June 30, 2026.

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.

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.

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:

	Three months ended June 30,		Six months ended June 30,	
($ 000s)	2026	2025	2026	2025
Cash provided by operating activities	**72,194**	1,599	**117,606**	24,211
Settlement of decommissioning obligations	**1,084**	269	**7,884**	537
Changes in non-cash working capital	**(31,411)**	12,634	**(51,455)**	11,461
Funds flow from operations	**41,867**	14,502	**74,035**	36,209

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 and 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 June 30, 2026:

Type of contract	Quantity	Time Period	Average Price
Fixed Price - Natural Gas Sales	5,000 GJ/d	Jul 2026 - Oct 2026	CAD $3.31 /GJ
Fixed Price - Power Purchases	55 MW	Jul 2026 - Dec 2026	CAD $71.80 /MWh
Fixed Price - Power Purchases	45 MW	Jan 2027 - Dec 2027	CAD $63.33 /MWh
Fixed Price - Power Purchases	15 MW	Jan 2028 - Dec 2028	CAD $60.60 /MWh
Fixed Price - Sulphur Sales	1/3 of Sulphur Sales	Jul 2026 - Dec 2026	USD $225/mt
Collar - Sulphur Sales	1/3 of Sulphur Sales	Jul 2026 - Dec 2026	USD $205.00 - $250.00/mt

The Company had the following financial risk management contracts or cashflow hedges, to which hedge accounting is applied, in place as at June 30, 2026:

Type of contract	Quantity	Time Period	Contract Price
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	757 bbl/d	Jul 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	725 bbl/d	Jul 2026 - Dec 2026	CAD $91.84 /bbl
WTI Crude Oil Swap	1288 bbl/d	Jan 2027 - Dec 2027	CAD $90.27 /bbl
WTI Crude Oil Swap	1109 bbl/d	Jan 2028 - Dec 2028	CAD $87.92 /bbl
WTI Crude Oil Swap	850 bbl/d	Jan 2029 - Dec 2029	CAD $86.59 /bbl

The Company entered into the following physical contracts subsequent to June 30, 2026:

Type of contract	Quantity	Time Period	Contract Price
Fixed Price - Sulphur Sales	548 mt/d	Jan 2027 – Dec 2027	USD $525/mt

On July 31, the Company entered into a fixed price sulphur pricing agreement with a third-party, under which Cavvy will receive USD $525/mt FOB Vancouver on 200,000mt of sulphur, before transportation and handling for a twelve month period commencing January 1, 2027.

Changes in fair value of risk management asset and liabilities for the period ended June 30, 2026 are as follows:

($ 000s)	2026	2025
Risk management asset balance, January 1	**33,152**	67,706
Changes in fair value of financial derivatives – profit or loss	**-**	(520)
Change in fair value of cash flow hedges – OCI	**(12,488)**	(34,034)
Risk management asset balance, end of period	**20,664**	33,152
Risk management asset – current	**22,291**	24,990
Risk management (liability) asset – long-term	**(1,627)**	8,162

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 June 30, 2026. 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 June 30, 2026.

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 June 30, 2026, and 2025. The sensitivity is based on a 10% increase and 10% decrease in forward price curves at June 30, 2026 and 2025.

	10% Decrease in Price		10% Increase in Price	
($ 000s)	2026	2025	2026	2025
Increase (decrease) to OCI				
Crude Oil - WTI (CAD)	**13,147**	9,840	**(13,330)**	(9,996)
Natural Gas - AECO (CAD)	**4,060**	12,889	**(4,060)**	(12,889)

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 three and six months ended June 30, 2026, the Company's primary interest rate exposure was the variable rate Senior Facility. A 1.0% change in the SOFR rate would have resulted in a change in interest expense of $0.2 million and $0.4 million, respectively (June 30, 2025 - $0.3 million and $0.6 million, respectively).

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. The Company is primarily exposed to foreign exchange risk from its USD denominated Senior Facility and Subordinated Notes, and its USD denominated sulphur sales.

For the three and six months ended June 30, 2026 a 5% change in the foreign exchange rates between USD and CAD would have resulted in an impact on interest expense of $0.2 million and $0.4 million, respectively (June 30, 2025 - $0.2 million and $0.4 million, respectively), an impact on foreign exchange gain (loss) related to the debt revaluation of $4.3 million (June 30, 2025 - $7.9 million), and an impact on sulphur revenue of $2.0 million and $3.1 million, respectively (June 30, 2025 – nil in both periods).

Currency risk exposure between USD denominated debt and sulphur sales are inverse, resulting in a natural currency hedge that partially mitigates the Company's foreign exchange risk. To further manage residual exposure, the Company periodically enters into currency hedges, which provide the right but not the obligation to purchase CAD or USD at a fixed exchange rate. The Company does not have any currency hedges outstanding as at June 30, 2026.

13. Presentation in Consolidated Statements of Cash Flows

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

	Three months ended June 30,		Six months ended June 30,	
($ 000s)	2026	2025	2026	2025
Changes in non-cash working capital				
Accounts receivable	**3,886**	7,134	**8,708**	13,008
Prepaid expenses and other	**(71)**	83	**(371)**	696
Inventories	**(140)**	(4)	**(90)**	102
Accounts payable and accrued liabilities	**(4,111)**	(22,450)	**(3,811)**	(25,340)
Deferred revenue	**33,631**	-	**47,517**	-
Total change in non-cash working capital	**33,195**	(15,237)	**51,953**	(11,534)
Relating to:				
Operating activities	**31,411**	(12,634)	**51,455**	(11,461)
Investing activities	**1,784**	(2,603)	**498**	(73)

14. Commitments, Provisions and Contingencies

Commitments

The following is a summary of the Company's commitments as at June 30, 2026:

($ 000s)	2026	2027	2028	Thereafter	Total
Firm transportation	6,673	12,704	3,260	-	22,637

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.