CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

THREE AND SIX MONTHS ENDED JUNE 30, 2021

PERPETUAL ENERGY INC.
Condensed Interim Consolidated Statements of Financial Position

As at	June 30, 2021	December 31, 2020
(*Cdn$ thousands unaudited*)		
Assets		
Current assets		
Accounts receivable (note 16)	**$ 4,142**	$ 3,953
Prepaid expenses and deposits	**1,155**	872
Fair value of derivatives (note 18)	**40**	–
	5,337	4,825
Property, plant and equipment (note 4)	**148,291**	123,985
Exploration and evaluation (note 5)	**10,183**	10,272
Right-of-use assets (note 6)	**1,125**	1,372
Total assets	**$ 164,936**	$ 140,454
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 14,926**	$ 11,924
Revolving bank debt (note 8)	**15,239**	17,495
Term loan (note 9)	**48,719**	46,691
Fair value of derivatives (note 18)	**1,812**	3,373
Royalty obligations (note 11)	**4,649**	3,553
Lease liabilities (note 12)	**702**	710
Decommissioning obligations (note 13)	**1,077**	1,048
	87,124	84,794
Senior notes (note 10)	**33,705**	32,359
Royalty obligations (note 11)	**1,721**	2,596
Lease liabilities (note 12)	**1,504**	1,791
Decommissioning obligations (note 13)	**29,151**	31,976
Total liabilities	**153,205**	153,516
Equity		
Share capital (note 14)	**97,627**	97,333
Contributed surplus	**45,405**	45,217
Deficit	**(131,301)**	(155,612)
Total equity	**11,731**	(13,062)
Total liabilities and equity	**$ 164,936**	$ 140,454

Future operations (note 1)
Contingencies (note 7)

See accompanying notes to the condensed interim consolidated financial statements.

/s/ Robert A. Maitland

Robert A. Maitland

Director

/s/ Geoffrey C. Merritt

Geoffrey C. Merritt

Director

PERPETUAL ENERGY INC.
Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	**2021**	2020
(*Cdn$ thousands, except per share amounts, unaudited*)				
Revenue				
Oil and natural gas (note 16)	**$ 13,226**	$ 3,722	**$ 24,762**	$ 14,219
Royalties	**(2,383)**	(794)	**(4,514)**	(3,177)
	10,843	2,928	**20,248**	11,042
Change in fair value of derivatives (note 18)	**(402)**	(950)	**(1,340)**	10,143
Gas over bitumen royalty credit	**225**	144	**463**	319
Other income (note 13)	**514**	–	**682**	–
	11,180	2,122	**20,053**	21,504
Expenses				
Production and operating	**3,552**	1,834	**6,838**	6,002
Transportation	**754**	782	**1,444**	2,052
Exploration and evaluation (note 5)	**(1)**	64	**19**	142
General and administrative	**1,994**	1,995	**4,049**	4,220
Share-based payments (note 15)	**522**	496	**1,002**	1,037
Depletion and depreciation (note 4 and 6)	**3,196**	2,901	**6,182**	9,180
Impairments (reversals) (note 4b and note 5)	**(30,100)**	–	**(30,100)**	60,500
Net income (loss) from operating activities	**31,263**	(5,950)	**30,619**	(61,629)
Finance expense (note 17)	**(4,246)**	(2,881)	**(6,308)**	(6,016)
Change in fair value of TOU share investment (note 3)	**–**	–	**–**	(904)
Net income (loss) and comprehensive income (loss)	**27,017**	(8,831)	**24,311**	(68,549)
Net income (loss) per share (note 14d)				
Basic	**$ 0.43**	$ (0.15)	**$ 0.39**	$ (1.13)
Diluted	**$ 0.38**	$ (0.15)	**$ 0.35**	$ (1.13)

See accompanying notes to the condensed interim consolidated financial statements.

PERPETUAL ENERGY INC.
Condensed Interim Consolidated Statements of Changes in Equity

(Cdn$ thousands unaudited)	Share capital *(thousands)*	Share capital *($thousands)*	Warrants	Contributed surplus	Deficit	Total equity
Balance at December 31, 2020	61,305	$ 97,333	$ –	$ 45,217	$ (155,612)	$ (13,062)
Net income	–	–	–	–	24,311	24,311
Common shares issued (note 14 and 15)	1,270	286	–	(56)	–	230
Change in shares held in trust (note 14 and 15)	16	8	–	(8)	–	–
Share-based payments (note 15)	–	–	–	252	–	252
Balance at June 30, 2021	**62,591**	**$ 97,627**	**$ –**	**$ 45,405**	**$ (131,301)**	**$ 11,731**

(Cdn$ thousands unaudited)	Share capital *(thousands)*	Share capital *($thousands)*	Warrants	Contributed surplus	Deficit	Total equity
Balance at December 31, 2019	60,513	$ 96,876	$ 923	$ 44,234	$ (94,015)	$ 48,018
Net loss	–	–	–	–	(68,549)	(68,549)
Common shares issued (note 14 and 15)	177	331	(923)	592	–	–
Change in shares held in trust (note 14 and 15)	204	98	–	(98)	–	–
Share-based payments (note 15)	–	–	–	315	–	315
Balance at June 30, 2020	**60,894**	**$ 97,305**	**$ –**	**$ 45,043**	**$ (162,564)**	**$ (20,216)**

See accompanying notes to the condensed interim consolidated financial statements.

PERPETUAL ENERGY INC.
Condensed Interim Consolidated Statements of Cash Flows

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	**2021**	2020
(*Cdn$ thousands, unaudited*)				
Cash flows from (used in) operating activities				
Net income (loss)	**$ 27,017**	$ (8,831)	**$ 24,311**	$ (68,549)
Adjustments to add (deduct) non-cash items:				
Other income (note 13)	**(514)**	–	**(682)**	–
Depletion and depreciation (note 4 and 6)	**3,196**	2,901	**6,182**	9,180
Exploration and evaluation (note 5)	**–**	29	**–**	65
Share-based payments (note 15)	**147**	135	**252**	315
Unrealized change in fair value of derivatives (note 18)	**(1,165)**	1,611	**(1,601)**	(10,532)
Change in fair value of TOU share investment (note 3)	**–**	–	**–**	904
Finance expense (note 17)	**3,955**	979	**6,954**	1,544
Impairments (reversals) (note 4b and 5)	**(30,100)**	–	**(30,100)**	60,500
Oil and natural gas revenue in-kind (note 11)	**(1,198)**	(650)	**(2,331)**	(650)
Decommissioning obligations settled (note 13)	**(316)**	(3)	**(431)**	(177)
Payments of restructuring costs	**–**	(331)	**–**	(809)
Change in non-cash working capital	**1,832**	1,383	**1,982**	2,318
Net cash flows from (used in) operating activities	**2,854**	(2,777)	**4,536**	(5,891)
Cash flows from (used in) financing activities				
Change in revolving bank debt, net of issue costs	**(2,015)**	(28,163)	**(2,344)**	(36,627)
Change in TOU share margin demand loan, net of issue costs	**–**	–	**–**	(100)
Change in senior notes, net of issue costs	**(6)**	–	**(225)**	–
Net proceeds on dispositions (note 4a and note 11)	**–**	6,996	**–**	6,996
Payments of lease liabilities (note 12)	**(150)**	(145)	**(295)**	(268)
Payments of gas over bitumen royalty financing (note 11)	**(234)**	(152)	**(470)**	(356)
Common shares issued, net of issue costs	**–**	–	**230**	–
Net cash flows used in financing activities	**(2,405)**	(21,464)	**(3,104)**	(30,355)
Cash flows from (used in) investing activities				
Capital expenditures	**(1,554)**	11	**(1,557)**	(5,222)
Acquisitions	**–**	(89)	**(625)**	(89)
Net proceeds on dispositions (note 4a)	**46**	27,754	**202**	27,754
Proceeds on sale of TOU share investment (note 3)	**–**	–	**–**	14,316
Change in non-cash working capital	**1,059**	(3,435)	**548**	(513)
Net cash flows from (used in) investing activities	**(449)**	24,241	**(1,432)**	36,246
Change in cash and cash equivalents	**–**	–	**–**	–
Cash and cash equivalents, beginning of period	**–**	–	**–**	–
Cash and cash equivalents, end of period	**$ –**	$ –	**$ –**	$ –

See accompanying notes to the condensed interim consolidated financial statements.

1. REPORTING ENTITY

Perpetual Energy Inc. ("Perpetual" or the "Company") is an oil and natural gas exploration, production, and marketing company headquartered in Calgary, Alberta. Perpetual owns a diversified asset portfolio, including liquids-rich conventional natural gas assets in the deep basin of West Central Alberta, heavy crude oil and shallow conventional natural gas in Eastern Alberta, undeveloped bitumen leases in Northern Alberta and prospective undeveloped acreage in the emerging Clearwater play fairway through its wholly owned subsidiary, Rubellite Energy Inc.

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

The condensed interim consolidated financial statements of the Company as at and for the three and six months ended June 30, 2021 are comprised of the accounts of Perpetual Energy Inc. and its wholly owned subsidiaries: Perpetual Operating Corp. and Perpetual Operating Trust, which are incorporated in Alberta.

Future operations

As of June 30, 2021, the Company's first lien reserve-based credit facility ("Credit Facility") had a borrowing limit of $20 million (the "Borrowing Limit") under which $15.2 million was borrowed and $1.0 million of letters of credit had been issued. The Credit Facility was set to mature on July 16, 2021. Additionally, the Company's second lien term loan (the "Term Loan") had a principal amount owing of $48.7 million set to mature on July 30, 2021. The Company had a net working capital deficiency (accounts payable and accrued liabilities, less accounts receivable and prepaid expenses and deposits) of $9.6 million (March 31, 2021 - $6.7 million). The Company will require additional financing to refinance the Credit Facility and Term Loan maturities and to fund the net working capital deficiency.

The semi-annual Term Loan interest payment of $1.9 million that was payable June 30, 2021, was deferred by the Company's Term Loan lender and added to the principal amount owing, bringing the principal amount outstanding at June 30, 2021 to $48.7 million. In January 2021, the Company exchanged its $33.6 million 8.75% unsecured senior notes due January 23, 2022 (the "2022 Senior Notes") for new $33.6 million secured 8.75% third lien senior notes due January 23, 2025 (the "2025 Senior Notes"). Interest on the 2025 Senior Notes may be paid-in-kind at the option of the Company by adding the interest payment to the principal amount owing. On January 23, 2021 and on July 23, 2021, the semi-annual interest payments on the 2025 Senior Notes were paid in-kind, increasing the principal amount outstanding to $36.6 million on July 23, 2021 (note 10).

On July 16, 2021, Perpetual announced the creation of a new wholly owned subsidiary, Rubellite Energy Inc. ("Rubellite") and the sale of all of Perpetual's Clearwater lands, wells, roads and related facilities in northeast Alberta (the "Clearwater Assets") to Rubellite. Rubellite will pay approximately $60 million (net of $4.1 million initial capitalization Rubellite common shares and $1.2 million of purchase price adjustments), of which $58 million will be paid in cash with the remainder comprised of the issuance of an option to purchase four million Rubellite common shares at a price of $3.00 per share for a period of five years (the "Rubellite Share Purchase Options"). Perpetual also announced a proposed plan of arrangement under the Business Corporations Act (Alberta) (the "Arrangement") involving Perpetual, Rubellite, and the shareholders of Perpetual whereby Rubellite will raise a minimum of $73.8 million cash through the sale of its equity to Perpetual shareholders and third-party investors (the "Rubellite Financings"). The Rubellite Financings include:

(i) A backstopped arrangement warrant financing whereby Perpetual shareholders will receive Rubellite common shares and arrangement warrants providing an equal opportunity to purchase Rubellite common shares, raising $33.4 million (16.7 million Rubellite common shares) (the "Arrangement Warrant Financing"). Rubellite has entered into a Standby Purchase Agreement with a corporation controlled by Sue Riddell Rose, Perpetual's President and Chief Executive Officer, that ensures that all arrangement warrants are fully exercised to the extent they are not otherwise exercised by other Perpetual shareholders;

(ii) a non-brokered private placement for a minimum of $10.5 million (5.2 million Rubellite common shares), which may be expanded to up to $20 million (10.0 million Rubellite common shares) (the "Non-Brokered Private Placement"). The Non-Brokered Private Placement is expected to close concurrently with the Arrangement Warrant Financing; and

(iii) a brokered $30.0 million subscription receipt financing (the "Sub-Receipt Financing") that has closed, with cash held in escrow by a third-party trustee until the earlier of the satisfaction of the escrow release conditions or November 30, 2021. On the satisfaction of the escrow release conditions, which include, among other things, the completion of the Arrangement and the concurrent completion of the Non-Brokered Private Placement and the Arrangement Warrant Financing as well as the listing of Rubellite common shares on the TSX, each subscription receipt issued will automatically be exchanged on a one-to-one basis for 15.0 million common shares of Rubellite concurrent with the other financings.

The Rubellite Financings are being completed at $2.00 per Rubellite common share equivalent and are expected to close before the end of the third quarter.

On July 15, 2021, Perpetual reached an agreement with its Term Loan lender for the settlement of principal and accrued interest owing on the Term Loan upon closing of the Rubellite Financings, for the payment of approximately $38.5 million in cash, delivery by Perpetual of 0.7 million Rubellite common shares, the issuance of a new $2.7 million second lien term loan bearing interest at 8.1% annually and maturing December 31, 2024, and up to a total of $4.5 million in contingent payments over the three year period ended June 30, 2024 in the event that Perpetual's annual average realized oil and natural gas prices exceed certain thresholds (the "Second Lien Loan Settlement"). The maturity of the existing Term loan has been extended to November 30, 2021. As part of the Second Lien Loan Settlement, the Term Loan lender has committed to fully exercise the arrangement warrants it will receive under the Arrangement associated with its approximately 4.0% equity ownership of Perpetual. In addition, the Term Loan lender has agreed to subscribe for $4.5 million of the Non-Brokered Private Placement and upon completion of the Transaction is expected to own approximately 9.3% of the Rubellite common shares. The Second Lien Loan Settlement will terminate concurrently upon any termination of the Arrangement or the agreements providing for the Rubellite Financings.

Upon closing of the Rubellite Financings, Perpetual will receive cash proceeds of approximately $53.2 million, net of transaction costs, the $1.2 million purchase price adjustment and non-cash consideration of 4.0 million Rubellite Share Purchase Options. Perpetual will use the cash proceeds received to satisfy the $38.5 million cash component of the Second Lien Loan Settlement with the remaining cash applied to repay a significant portion of the Credit Facility. Upon closing of the Rubellite Financings and concurrent completion of the Second Lien Loan Settlement, the Credit Facility will have a Borrowing Limit of $17 million, reduced from the existing $20 million Borrowing Limit, with a maturity of May 31, 2023. The next Borrowing Limit redetermination is scheduled on or before November 30, 2021. If the Rubellite Financings or the Second Lien Loan Settlement does not close, the Credit Facility will cease to revolve and will mature on November 15, 2021. Upon the completion of the Rubellite Financings and concurrent Second Lien Loan Settlement, the Company's net debt will be reduced by approximately 46% with no debt maturities until May 31, 2023. The Company anticipates that its improved liquidity and forecast cash flows from operating activities will be sufficient to fund its working capital deficiency and capital spending plans.

Subsequent to June 30, 2021, Rubellite has entered into an agreement with a third party whereby it has sold a 3% to 5% gross overriding royalty on certain lands at Figure Lake (the "Figure Lake GORR Financing") for gross proceeds of $7.9 million to be paid in accordance with a drilling commitment agreement. It is expected that 100% of Rubellite's costs for the drilling, completion and equipping of four commitment wells and a portion of the costs for twelve additional wells on the Figure Lake royalty lands will be funded by the Figure Lake GORR Financing. The first of four Figure Lake commitment wells was spud on July 21, 2021.

There can be no assurance that the Arrangement will be completed. In the absence of the completion of the Arrangement, the Rubellite Financings, and concurrent Second Lien Loan Settlement, there remains considerable risk around the Company's ability to address its liquidity shortfalls and upcoming maturities. In addition, there continues to be some uncertainty regarding the Statement of Claim (note 7) which may restrict the Company's ability to manage its capital structure. As a result, there is material uncertainty surrounding the Company's ability to continue as a going concern that creates significant doubt as to the ability of the Company to meet its obligations as they come due. Therefore, the Company may be unable to realize its assets and discharge its liabilities in the normal course of business.

These financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Corporation will be able to realize its assets and discharge its liabilities in the normal course of business. These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these financial statements, then adjustments would be necessary in the carrying value of the assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used. These adjustments could be material.

2. BASIS OF PREPARATION

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and do not include all of the information required for full annual financial statements. These condensed interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements as at and for the year ended December 31, 2020 which were prepared in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The accounting policies, basis of measurement, critical accounting judgements and significant estimates used to prepare the annual consolidated financial statements as at and for the year ended December 31, 2020 have been applied in the preparation of these condensed interim consolidated financial statements.

These condensed interim consolidated financial statements of the Company were approved and authorized for issue by the Board of Directors on August 12, 2021.

3. TOURMALINE OIL CORP. ("TOU") SHARE INVESTMENT

	December 31, 2020	
	Shares *(thousands)*	Amount *($thousands)*
Balance, beginning of period	1,000	$ 15,220
Sold	(1,000)	(14,316)
Change in fair value of TOU share investment	–	(904)
Balance, end of period	–	$ –

During the year ended December 31, 2020, the Company sold the remaining 1,000,000 TOU shares at a weighted average price of $14.32 per share for net cash proceeds of $14.3 million. Proceeds were used to repay the $0.1 million TOU share margin demand loan in full and to pay down a portion of the Credit Facility (note 8).

4. PROPERTY, PLANT AND EQUIPMENT ("PP&E")

	Oil and Gas Properties	Corporate Assets	Total
Cost			
December 31, 2019	$ 731,526	$ 7,688	$ 739,214
Additions	5,884	(36)	5,848
Drilling program rights (a)	18,000	–	18,000
Acquisitions	222	–	222
Change in decommissioning obligations related to PP&E (note 13)	2,747	–	2,747
Transfers from exploration and evaluation (note 5)	252	–	252
Dispositions (a)	(193,672)	–	(193,672)
December 31, 2020	$ 564,959	$ 7,652	$ 572,611
Additions	1,555	2	1,557
Acquisitions	625	–	625
Change in decommissioning obligations related to PP&E (note 13)	(1,928)	–	(1,928)
Transfers from exploration and evaluation (note 5)	89	–	89
Dispositions	(202)	–	(202)
June 30, 2021	**$ 565,098**	**$ 7,654**	**$ 572,752**
Accumulated depletion and depreciation			
December 31, 2019	$ (537,149)	$ (7,431)	$ (544,580)
Depletion and depreciation	(14,926)	(136)	(15,062)
Impairment (b)	(32,300)	–	(32,300)
Dispositions (a)	143,316	–	143,316
December 31, 2020	$ (441,059)	$ (7,567)	$ (448,626)
Depletion and depreciation	(5,902)	(33)	(5,935)
Impairment reversal (b)	30,100	–	30,100
June 30, 2021	**$ (416,861)**	**$ (7,600)**	**$ (424,461)**
Carrying amount			
December 31, 2020	$ 123,900	$ 85	$ 123,985
June 30, 2021	**$ 148,237**	**$ 54**	**$ 148,291**

At June 30, 2021, PP&E included $1.0 million (December 31, 2020 – $1.0 million) of costs currently not subject to depletion.

During the year ended December 31, 2020, the Company and 1974918 Alberta Ltd ("197Co"), a company controlled by Perpetual's President and Chief Executive Officer ("CEO"), acquired certain Figure Lake lands from third parties in its Eastern Alberta core area. During the six months ended June 30, 2021, Perpetual and 197Co acquired additional undeveloped lands in the same Eastern Alberta core area. Perpetual has the option, but not the obligation, to acquire 197Co's interest in the acquired lands for an amount based on pre-determined parameters, on or prior to July 15, 2021 (the "Purchase Option"). Subsequent to June 30, 2021, Perpetual exercised the Purchase Option in exchange for a secured promissory note in the amount of $5.6 million payable to 197Co.

a) Dispositions

On April 1, 2020, the Company sold a 50% working interest in its East Edson property in West Central Alberta to a third party (the "Purchaser") for consideration including a cash payment of $35 million and the carried interest funding of the drill, complete and tie-in costs for an eight well drilling program (the "East Edson Transaction"). The consideration received, and calculation of the gain (loss) recorded on disposition is summarized below:

($ thousands)	
Cash proceeds from disposition (i)	**34,750**
Drilling program rights received (ii)	**18,000**
Retained East Edson royalty obligation (iii)	**(6,996)**
Carrying amount of assets held for sale disposed (iv)	**(52,803)**
Carrying amount of decommissioning obligations held for sale disposed (v)	**7,049**
Gain (loss) on disposition	**–**

i) Cash proceeds from disposition — $35.0 million of cash received on closing, net of $0.2 million transaction costs and closing adjustments. In order to reflect the nature of the proceeds received, cash proceeds from disposition have been allocated on the condensed interim consolidated statements of cash flows to financing and investing activities in the amount of $7.0 million and $27.8 million, respectively.

ii)	Drilling program rights received	$18.0 million of drilling program rights, comprised of the carried interest funding of the drill, complete, and tie-in costs for an eight-well drilling program. Seven horizontal wells targeting development of the Wilrich formation have been drilled, completed and have commenced production. Drilling program rights have been subject to depletion. The Purchaser is required to fulfill its entire commitment by April 1, 2022 and will be obligated to pay Perpetual $2.25 million for each commitment well not completed and tied-in by this time.
iii)	Retained East Edson royalty obligation	$7.0 million that Perpetual will retain until December 31, 2022 on behalf of the Purchaser, comprising the Purchaser's 50% working interest in the existing gross overriding royalty on the East Edson property equivalent to 2.8 MMcf/d of natural gas and associated natural gas liquids ("NGL") production (note 11).
iv)	Carrying amount of assets disposed	$52.8 million of oil and gas properties ($50.4 million) and exploration and evaluation assets ($2.4 million).
v)	Carrying amount of decommissioning obligations disposed	$7.0 million of decommissioning obligations associated with oil and gas properties disposed.

b) Cash-generating units ("CGUs"), impairment and impairment reversals

In accordance with IFRS, the Company is required to assess when internal or external indicators of impairment or impairment reversal exist, and impairment testing is required. At June 30, 2021, the Company conducted an assessment of indicators of impairment and impairment reversal for all the Company's CGUs. In performing the assessment, management determined that the significant recovery in global oil and natural gas prices, coupled with the increasing economic stability and certainty in the oil and natural gas industry which positively impacts operating cash flows, justified calculation of the recoverable amount of the liquids-rich natural gas assets and heavy oil assets which comprise the West Central CGU and Eastern Alberta CGU, respectively.

The estimated recoverable amounts of the CGUs were determined using value-in-use ("VIU") based on the estimates of proved and probable oil and gas reserves and the related cash flows as evaluated or reviewed by the Company's independent third party reserves evaluators and updated by internal reserve evaluators, along with oil and gas commodity price estimates based on an average of three independent third party reserve evaluators as at July 1, 2021, and an estimate of market discount rates between 12% and 22% to consider risks specific to the CGUs.

At June 30, 2021, the Company determined that the estimated recoverable amounts of the West Central CGU and Eastern Alberta CGU exceeded the carrying amounts of $89.6 million and $28.6 million, respectively. Accordingly, a non-cash impairment reversal of $30.1 million was included in net income.

Forecasted oil and gas commodity prices based on an average of three independent third party reserve evaluators were used in the VIU calculations as at June 30, 2021:

Year	WTI Crude Oil *(US$/bbl)*	USD/CDN exchange rate *(US$/Cdn$)*	Alberta Heavy Crude Oil *(Cdn$/bbl)*	AECO Gas *(Cdn$/MMBtu)*	NYMEX Gas *(Cdn$/MMBtu)*
2021	65.59	0.80	61.66	3.18	4.16
2022	67.20	0.80	61.13	3.13	3.98
2023	63.95	0.80	55.88	2.72	3.65
2024	63.23	0.80	54.95	2.71	3.70
2025	64.50	0.80	56.06	2.76	3.78
2026	65.79	0.80	57.19	2.82	3.85
2027	67.10	0.80	58.34	2.88	3.93
2028	68.44	0.80	59.51	2.94	4.01
2029	69.81	0.80	60.71	2.99	4.09
2030	71.21	0.80	61.92	3.05	4.17
2031	72.63	0.80	63.16	3.12	4.26
2032	74.09	0.80	64.43	3.18	4.34
2033	75.57	0.80	65.71	3.24	4.43
2034	77.08	0.80	67.03	3.31	4.52
2035(1)	78.62	0.80	68.37	3.37	4.61

(1) Commodity price estimates escalate 2.0% per year thereafter.

As at June 30, 2021, if discount rates used in the calculation of impairment changed by 1% with all other variables held constant, the impairment reversal for the West Central CGU and Eastern Alberta CGU would change by approximately $3.6 million and $1.9 million, respectively. As at June 30, 2021, if commodity price estimates changed by 5% with all other variables held constant, the impairment reversal for the West Central CGU and Eastern Alberta CGU would change by approximately $7.5 million and $7.9 million, respectively.

For the year ended December 31, 2020, the Company recorded an aggregate non-cash impairment charge of $32.3 million related to the CGUs in net loss.

5. EXPLORATION AND EVALUATION ("E&E")

	June 30, 2021	December 31, 2020
Balance, beginning of period	**$ 10,272**	$ 23,609
Additions	–	91
Dispositions	–	(2,447)
Impairments	–	(10,200)
Non-cash exploration and evaluation expense	–	(529)
Transfers to property, plant and equipment	**(89)**	(252)
Balance, end of period	**$ 10,183**	$ 10,272

During the six months ended June 30, 2021, a nominal amount (2020 – $0.1 million) in costs were charged directly to E&E expense in the consolidated statements of loss and comprehensive loss.

Impairment of E&E assets

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

At June 30, 2021, the Company conducted an assessment of indicators of impairment and impairment reversal for the Company's E&E assets. There were no triggers identified and therefore, no impairments or impairment reversals recognized during the first six months of 2021.

For the year ended December 31, 2020, the Company recorded a non-cash impairment charge of $10.2 million related to E&E assets which was included in net loss.

6. RIGHT-OF-USE ASSETS

The Company leases several assets including office space, vehicles, and miscellaneous other assets. Information about leases for which the Company is a lessee is presented below:

	Head office	Vehicles	Other leases	Total
Cost				
January 1, 2020	$ 1,498	$ 200	$ 161	$ 1,859
Additions	93	189	86	368
December 31, 2020	$ 1,591	$ 389	$ 247	$ 2,227
Additions	–	–	–	–
June 30, 2021	**$ 1,591**	**$ 389**	**$ 247**	**$ 2,227**
Accumulated depreciation				
January 1, 2020	$ (240)	$ (80)	$ (64)	$ (384)
Depreciation	(257)	(135)	(79)	(471)
December 31, 2020	$ (497)	$ (215)	$ (143)	$ (855)
Depreciation	(129)	(71)	(47)	(247)
June 30, 2021	**$ (626)**	**$ (286)**	**$ (190)**	**$ (1,102)**
Carrying amount				
December 31, 2020	$ 1,094	$ 174	$ 104	$ 1,372
June 30, 2021	**$ 965**	**$ 103**	**$ 57**	**$ 1,125**

7. CONTINGENCIES

On August 3, 2018, the Company received a Statement of Claim that was filed by PricewaterhouseCoopers Inc. LIT ("PwC"), in its capacity as trustee in bankruptcy (the "Trustee") of Sequoia Resources Corp. ("Sequoia"), with the Alberta Court of Queen's Bench (the "Court"), against Perpetual (the "Sequoia Litigation"). The claim relates to an almost five-year-old transaction when, on October 1, 2016, Perpetual closed the disposition of shallow conventional natural gas assets in Eastern Alberta to an arm's length third party at fair market value at the time after an extensive and lengthy marketing, due diligence and negotiation process (the "Sequoia Disposition"). This transaction was one of several completed by Sequoia. Sequoia assigned itself into bankruptcy on March 23, 2018. PwC is seeking an order from the Court to either set this transaction aside or declare it void, or damages of approximately $217 million. On August 27, 2018, Perpetual filed a Statement of Defence and Application for Summary Dismissal with the Court in response to the Statement of Claim. All allegations made by PwC have been denied and applications to the Court to dismiss all claims has been made on the basis that there is no merit to any of them.

On January 13, 2020, the Court issued its written decision related to the Sequoia Disposition. The decision dismissed and struck all claims against the Company's CEO and all but one of the claims filed against Perpetual. The Court did not find that the test for summary dismissal relating to whether the asset transaction was an arm's length transfer for purposes of section 96(1) of the Bankruptcy and Insolvency Act (the "BIA") was met, on the balance of probabilities. Accordingly, the BIA claim was not dismissed or struck and only that part of the claim could continue against Perpetual. The Trustee filed a notice of appeal with the Court of Appeal of Alberta, challenging the entire decision, and Perpetual filed a similar notice of appeal contesting the BIA claim portion of the decision (the "First Appeal").

The First Appeal proceedings were heard on December 10, 2020. On January 25, 2021, the Court of Appeal of Alberta issued their judgement with respect to the First Appeal proceedings, dismissing the appeal filed by Perpetual and granting certain aspects of the appeals filed by the Trustee, thereby reinstating certain elements of the Sequoia Litigation for trial. On March 24, 2021, Perpetual applied for leave to appeal the First Appeal decision to the Supreme Court of Canada (the "SCC"). On July 8, 2021, the SCC dismissed Perpetual's application.

On February 25, 2020, Perpetual filed a second application to strike and summarily dismiss the BIA claim on the basis that there was no transfer at undervalue, and Sequoia was not insolvent at the time of the asset transaction nor caused to be insolvent by the asset transaction. In July 2020, the Orphan Well Association ("OWA"), certain oil and gas companies, and six municipalities applied to intervene in the second BIA dismissal application proceedings. The OWA and certain oil and gas companies were permitted to intervene (the "Intervenors") in the proceedings which took place on October 1 and 2, 2020. The Intervenors were also permitted to intervene in the First Appeal proceedings. On January 14, 2021 the Court issued its decision, finding that the Trustee could not establish a necessary element of the BIA Claim as Sequoia was not insolvent at the time of, nor rendered insolvent by, the Sequoia Disposition. The Court therefore concluded there is "no merit" to the BIA Claim and it summarily dismissed the balance of the Statement of Claim. The Trustee has subsequently appealed this decision, which is scheduled to be heard on February 10, 2022.

Management expects that the Company is more likely than not to be completely successful in defending against the Sequoia Litigation such that no damages will be awarded against it, and therefore, no amounts have been accrued as a liability in these financial statements.

8. REVOLVING BANK DEBT

As at June 30, 2021, the Company's Credit Facility had a Borrowing Limit of $20 million (December 31, 2020 – $20.0 million) under which $15.2 million was drawn (December 31, 2020 – $17.5 million) and $1.0 million of letters of credit had been issued (December 31, 2020 – $0.9 million). Borrowings under the Credit Facility bear interest at its lenders' prime rate or Banker's Acceptance rates, plus applicable margins and standby fees. The applicable Banker's Acceptance margins range between 3.0% and 5.5%. The effective interest rate on the Credit Facility at June 30, 2021 was 7.0%. For the period ended June 30, 2021 if interest rates changed by 1% with all other variables held constant, the impact on annual cash finance expense and net income would be $0.2 million. On June 28, 2021, the Borrowing Limit redetermination and maturity date was extended to July 16, 2021.

Subsequent to June 30, 2021, Perpetual entered into an agreement with its syndicate of lenders to extend its Credit Facility maturity. Upon closing of the Rubellite Financings and concurrent completion of the Second Lien Loan Settlement, the Credit Facility will have a Borrowing Limit of $17 million, reduced from the existing $20 million Borrowing Limit, with an initial term to November 30, 2022 and the opportunity to extend the revolving period for a further six months subject to approval by the syndicate. If not extended on or before November 30, 2022, the Credit Facility will cease to revolve and will mature on May 31, 2023. The next Borrowing Limit redetermination is scheduled on or before November 30, 2021. If the Arrangement, Rubellite Financings or the Second Lien Loan Settlement do not close by October 31, 2021, the Credit Facility will cease to revolve and will mature on November 15, 2021.

The Credit Facility is secured by general first lien security agreements covering all present and future property of the Company and its subsidiaries, with the exception of certain lands pledged to the gas over bitumen royalty financing counterparty. The Credit Facility also contains provisions which restrict the Company's ability to repay Term Loan and senior note principal and interest, and to pay dividends on or repurchase its common shares.

At June 30, 2021, the Credit Facility was not subject to any financial covenants and the Company was in compliance with all customary non-financial covenants.

9. TERM LOAN

			June 30, 2021		December 31, 2020	
	Maturity date	**Interest rate**	**Principal**	**Carrying Amount**	Principal	Carrying amount
Term loan	July 30, 2021	8.1%	**$ 48,719**	**$ 48,719**	$ 46,823	$ 46,691

The Term Loan bears a fixed interest rate of 8.1% with semi-annual interest payments due June 30th and December 31st of each year. The Company and the second lien lender agreed to allow interest amounts of $1.8 million related to the December 31, 2020 payment and $1.9 million related to the June 30, 2021 payment to be paid-in-kind and added to the outstanding principal amount of the loan. Non-cash paid in-kind interest of $0.9 million has been recorded in the second quarter of 2021 (YTD 2021 – $1.9 million), increasing the principal amount owing at June 30, 2021 to $48.7 million. On June 28, 2021, the maturity date applicable to the Company's Term Loan was extended from June 30, 2021 to July 30, 2021. The Term Loan has been presented as a current liability on the condensed interim consolidated statements of financial position as at June 30, 2021.

The Term Loan has a cross-default provision with the Credit Facility and contains substantially similar provisions and covenants as the Credit Facility (note 8). The Term Loan is secured by a general security agreement over all present and future property of the Company and its subsidiaries on a second priority basis, subordinate only to liens securing loans under the Credit Facility, and certain lands pledged to the gas over bitumen royalty financing counterparty (note 11).

At June 30, 2021, the Term Loan was not subject to any financial covenants and the Company was in compliance with all customary non-financial covenants.

On July 15, 2021, Perpetual reached an agreement with its Term Loan lender for the settlement of principal and accrued interest owing on the Term Loan upon closing of the Rubellite Financings, for the payment of approximately $38.5 million in cash, delivery by Perpetual of 680,485 Rubellite common shares, the issuance of a new $2.7 million second lien term loan bearing interest at 8.1% annually and maturing December

31, 2024, and up to a total of $4.5 million in contingent payments over the three year period ended June 30, 2024 in the event that Perpetual's annual average realized oil and natural gas prices exceed certain thresholds.

The maturity of the existing Term Loan has been extended to November 30, 2021. As part of the Second Lien Loan Settlement, the Term Loan lender has committed to fully exercise the arrangement warrants it will receive under the Arrangement associated with its approximately 4.0% equity ownership of Perpetual. In addition, the Term Loan lender has agreed to subscribe for $4.45 million of the Non-Brokered Private Placement and upon completion of the Transaction is expected to own approximately 9.3% of the Rubellite common shares. The Second Lien Loan Settlement will terminate concurrently upon any termination of the Arrangement or the agreements providing for the Rubellite Financings.

10. SENIOR NOTES

			June 30, 2021		December 31, 2020	
	Maturity date	**Interest rate**	**Principal**	**Carrying Amount**	Principal	Carrying amount
Senior notes	January 23, 2025	8.75%	**$ 36,403**	**$ 33,705**	$ 33,580	$ 32,359

On January 22, 2021, Perpetual announced the completion of a Court-approved plan of arrangement whereby the unsecured 2022 Senior Notes were exchanged for new 8.75% secured third lien notes due January 23, 2025. The 2025 Senior Notes have been issued under a trust indenture that contains substantially the same terms as the 2022 Senior Notes, other than the 2025 Senior Notes are secured on a third lien basis and allow for the semi-annual interest payments to be paid at Perpetual's option, in cash, or in additional 2025 Senior Notes (a "PIK Interest Payment"). The Company elected to pay the January 23, 2021 semi-annual interest of $1.5 million by a PIK Interest Payment which increased the principal amount of the 2025 Senior Notes outstanding to $35.0 million, and satisfied the semi-annual interest payment due July 23, 2021 by making a PIK Interest Payment in the amount of $1.6 million. Non-cash paid in-kind interest of $0.8 million has been recorded in the second quarter of 2021 (YTD 2021 – $1.5 million), increasing the principal amount owing at June 30, 2021 to $36.4 million.

At June 30, 2021, the senior notes are recorded at the present value of future cash flows, net of $2.7 million in issue and principal discount costs which are amortized over the remaining term using a weighted average effective interest rate of 11.4%.

The senior notes are direct senior secured, third lien obligations of the Company. The Company may redeem the senior notes without any repayment penalty. The senior notes have a cross-default provision with the Company's Credit Facility. In addition, the senior notes indenture contains restrictions on certain payments including dividends, retirement of subordinated debt, and stock repurchases. At June 30, 2021, the senior notes were not subject to any financial covenants and the Company was in compliance with all customary non-financial covenants.

Entities controlled by the Company's CEO hold $15.2 million of the 2025 Senior Notes outstanding. An entity that is associated with the Company's CEO, and an entity that is associated with a Director of the Company hold an additional $9.9 million and $0.7 million of the 2025 Senior Notes outstanding, respectively.

11. ROYALTY OBLIGATIONS

	Retained East Edson royalty obligation	**Gas over bitumen royalty financing**	**Total**
December 31, 2019	–	871	871
Initial recognition (note 4a)	6,996	–	6,996
Cash payments	–	(704)	(704)
Non-cash payments in-kind	(2,319)	–	(2,319)
Change in fair value (note 17)	1,037	268	1,305
December 31, 2020	5,714	435	6,149
Cash payments	–	(470)	(470)
Non-cash payments in-kind	(2,331)	–	(2,331)
Change in fair value (note 17)	2,899	123	3,022
June 30, 2021	**6,282**	**88**	**6,370**

	June 30, 2021	December 31, 2020
Current	**$ 4,649**	$ 3,553
Non-current	**1,721**	2,596
Total royalty obligations	**$ 6,370**	$ 6,149

The retained East Edson royalty obligation formed part of the net consideration received by Perpetual from the East Edson Transaction whereby Perpetual agreed to retain the Purchaser's 50% working interest in the existing gross overriding royalty obligation on the property, equivalent to 2.8 MMcf/d of natural gas and associated NGL production for the period April 1, 2020 to December 31, 2022 (see note 4(a)(iii)). The retained East Edson royalty obligation is paid in-kind and settled through non-cash delivery of contractual natural gas and NGL volumes to the royalty holder (note 16). For the three and six months ended June 30, 2021, non-cash payments in-kind totalled $1.2 million and $2.3 million, respectively (Q2 2020 – $0.7 million; YTD 2020 – $0.7 million).

The Company has designated the retained East Edson royalty obligation and the gas over bitumen royalty financing as financial liabilities which are measured at fair value through profit and loss, estimated by discounting future royalty obligations based on forecasted natural gas and NGL commodity prices multiplied by the royalty obligation volumes. For the six months ended June 30, 2021, an unrealized loss of $3.0 million (YTD 2020 – unrealized loss of $0.5 million) is included in non-cash finance expense related to the change in fair value of total royalty obligations (note 17).

As at June 30, 2021, if forecasted natural gas commodity prices changed by $0.25 per GJ with all other variables held constant, the fair value of the total royalty obligations and net income for the period would change by $0.4 million.

12. LEASE LIABILITIES

	June 30, 2021	December 31, 2020
Balance, beginning of period	**$ 2,501**	$ 2,685
Additions	–	368
Interest on lease liabilities (note 17)	**79**	175
Payments	**(374)**	(727)
Total lease liabilities	**$ 2,206**	$ 2,501
Current	**$ 702**	$ 710
Non-current	**1,504**	1,791
Total lease liabilities	**$ 2,206**	$ 2,501

Lease terms are negotiated on an individual basis and contain a wide range of terms and conditions. Incremental borrowing rates used to measure the present value of the future lease payments at June 30, 2021 were between 4.3% and 6.6% (2020 – 4.3% and 6.6%).

13. DECOMMISSIONING OBLIGATIONS

The following significant assumptions were used to estimate decommissioning obligations:

	June 30, 2021	December 31, 2020
Obligations incurred, including acquisitions	**$ 140**	$ 603
Change in risk free interest rate	**(2,068)**	2,344
Change in estimates	**–**	(200)
Change in decommissioning obligations related to PP&E (note 4)	**(1,928)**	2,747
Obligations settled[1] (cash)	**(431)**	(210)
Obligations settled[2] (non-cash)	**(682)**	(812)
Obligations disposed (note 4a(v))	**–**	(7,049)
Accretion (note 17)	**245**	443
Change in decommissioning obligations	**(2,796)**	(4,881)
Balance, beginning of period	**33,024**	37,905
Balance, end of period	**$ 30,228**	$ 33,024
Decommissioning obligations – current	**$ 1,077**	$ 1,048
Decommissioning obligations – non-current	**29,151**	31,976
Total decommissioning obligations	**$ 30,228**	$ 33,024

(1) Includes obligations settled (cash) for the three and six months ended June 30, 2021 of $0.3 million and $0.4 million, respectively (Q2 2020 – a nominal amount; YTD 2020 - $0.2 million).

(2) Includes obligations settled (non-cash) for the three and six months ended June 30, 2021 of $0.5 million and $0.7 million, respectively (Q2 2020 – nil; YTD 2020 - nil). These settlements have been recorded as other income and are funded by payments made directly to Perpetual's service providers from the Alberta Site Rehabilitation Program.

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

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

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

	June 30, 2021	December 31, 2020
Undiscounted obligations	**$ 30,705**	$ 31,683
Average risk-free rate	**1.8%**	1.2%
Inflation rate	**1.7%**	1.5%
Expected timing of settling obligations	**1 to 25 years**	1 to 25 years

14. SHARE CAPITAL

	June 30, 2021		December 31, 2020	
	Shares *(thousands)*	**Amount *($thousands)***	Shares *(thousands)*	Amount *($thousands)*
Balance, beginning of period	**61,305**	**$ 97,333**	60,513	$ 96,876
Issued pursuant to share-based payment plans	**270**	**56**	548	340
Shares held in trust issued (b)	**16**	**8**	244	117
Treasury shares issued (c)	**1,000**	**230**	–	–
Balance, end of period	**62,591**	**$ 97,627**	61,305	$ 97,333

a) Authorized

Authorized capital consists of an unlimited number of common shares.

b) Shares held in trust

The Company has compensation agreements in place with employees whereby they may be entitled to receive shares of the Company purchased on the open market by a trustee (note 15). Share capital is presented net of the number and cumulative purchase cost of shares held by the trustee that have not yet been issued to employees. As at June 30, 2021, 0.5 million shares were held in trust (December 31, 2020 – 0.6 million).

c) Treasury shares issued

During the first quarter of 2021, 1.0 million common shares were issued to an Officer of the Company for the payment of $0.2 million in cash consideration at a price of $0.23 per share, representing the volume weighted average trading price of the shares for the 5-day period immediately preceding the issuance.

d) Per share information

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	**2021**	2020
(thousands, except per share amounts)				
Net income (loss) – basic	**$27,017**	$ (8,831)	**$ 24,311**	$ (68,549)
Effect of dilutive securities	**–**	–	**–**	–
Net income (loss) – diluted	**$27,017**	$ (8,831)	**$ 24,311**	$ (68,549)
Weighted average shares				
Issued common shares	**63,118**	61,372	**62,641**	61,343
Effect of shares held in trust	**(544)**	(596)	**(550)**	(618)
Weighted average common shares outstanding – basic	**62,574**	60,776	**62,091**	60,725
Weighted average common shares outstanding – diluted(1)	**70,461**	60,776	**69,324**	60,725
Net income (loss) per share – basic	**$ 0.43**	$ (0.15)	**$ 0.39**	$ (1.13)
Net income (loss) per share – diluted	**0.38**	(0.15)	**0.35**	(1.13)

(1) For the three months ended June 30, 2021, 8.2 million potentially issuable common shares through the share-based compensation plans were excluded as they were not dilutive. For the six months ended June 30, 2021, 8.8 million potentially issuable common shares through the share-based compensation plans were excluded as they were not dilutive.

15. SHARE-BASED PAYMENTS

The components of share-based payments are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	**2021**	2020
Compensation awards	**32**	35	**70**	79
Share options	**22**	70	**51**	156
Performance share rights	**468**	391	**881**	802
Share-based payments	**522**	496	**1,002**	1,037

The following tables summarize information about options, rights, and awards outstanding:

	Compensation awards					
(thousands)	**Deferred options**	**Deferred shares**	**Share options**	**Performance share rights(1)**	**Restricted rights**	**Total**
December 31, 2019	3,587	1,276	4,604	2,745	–	12,212
Granted	2,250	1,571	873	1,710	557	6,961
Exercised for common shares	–	–	–	–	(548)	(548)
Exercised for shares held in trust	–	(244)	–	–	–	(244)
Exercised for restricted rights	–	(40)	–	(517)	–	(557)
Performance adjustment	–	–	–	(518)	–	(518)
Cancelled/forfeited	(754)	(162)	–	–	(9)	(925)
Expired	(26)	–	(80)	–	–	(106)
December 31, 2020	5,057	2,401	5,397	3,420	–	16,275
Granted(2)(3)	–	191	350	1,715	278	2,534
Exercised for common shares	–	–	–	–	(270)	(270)
Exercised for shares held in trust	(16)	–	–	–	–	(16)
Exercised for restricted rights	–	(278)	–	–	–	(278)
Cancelled/forfeited	(9)	–	–	–	(8)	(17)
Expired	(438)	(20)	(1,725)	–	–	(2,183)
June 30, 2021	**4,594**	**2,294**	**4,022**	**5,135**	**–**	**16,045**

(1) Certain performance share rights contain monetary awards that may be settled in cash, in common shares of the Company, or a combination thereof at the discretion of the Board of Directors, equal to the monetary amount at the time of vesting. These awards are accounted for as cash-settled share-based compensation in which the fair value of the amounts payable under the plan are recognized incrementally as an expense over the vesting period, with a corresponding change in liabilities. As at June 30, 2021, $1.1 million had been accrued pursuant to cash-settled share-based compensation awards (December 31, 2020 – $0.4 million).

(2) Share options granted during the six months ended June 30, 2021 have an exercise price of $0.23 per award and vest evenly over four years, with expiry occurring five years after issuance. The Company used the Black Scholes option pricing model to calculate the estimated fair value of the outstanding deferred options and share options at the date of grant. Expected volatility of 60% and forfeiture rates of 5% were used to value the share options.

(3) During the six months ended June 30, 2021, 0.4 million share options, 1.7 million performance share rights, and 0.2 million deferred shares were granted to Officers and Directors of the Company.

16. REVENUE

The Company sells its production pursuant to fixed or variable price contracts. The transaction price for variable priced contracts is based on the commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Under the contracts, the Company is required to deliver fixed or variable volumes of conventional natural gas, heavy crude oil or NGL as may be applicable to the contract counterparty. Revenue is recognized when a unit of production is delivered to the contract counterparty. The amount of revenue recognized is based on the agreed transaction price, whereby any variability in revenue relates specifically to the Company's efforts to transfer production, and therefore the resulting revenue is allocated to the production delivered in the period during which the variability occurs. As a result, none of the variable revenue is considered constrained.

Conventional natural gas, heavy crude oil and NGL are mostly sold under contracts of varying price and volume terms of up to one year. Revenues are typically collected on the 25th day of the month following production.

Natural gas volumes sold pursuant to the Company's market diversification contract are sold at fixed volume obligations and priced at daily index prices plus US$0.02/MMBtu until October 31, 2022 and less US$0.08/MMBtu thereafter, less transportation costs from AECO to each market price point as detailed in the table below.

In the first quarter of 2021, the Company eliminated its remaining fixed volume obligations of 10,000 MMBtu/d for the period commencing April 1, 2021 and ending on October 31, 2021 in consideration for the payment of $1.4 million over the term of the associated contract volumes. The amount was recognized as a realized loss on derivatives (note 18).

In the second quarter of 2021, the Company eliminated its fixed volume obligations of 25,400 MMBtu/d for the period commencing November 1, 2021 and ending on March 31, 2022 in consideration for the payment of $1.6 million over the term of the associated contract volumes. The amount was recognized as a realized loss on derivatives (note 18).

Market/Pricing Point	**November 1, 2020 to March 31, 2021 Daily sales volume *(MMBtu/d)***	**April 1, 2021 to March 31, 2022 Daily sales volume *(MMBtu/d)***	**April 1, 2022 to October 31, 2022 Daily sales volume *(MMBtu/d)***	**November 1, 2022 to October 31, 2024 Daily sales volume *(MMBtu/d)***
Chicago	4,000	–	12,200	–
Malin	–	–	–	15,000
Dawn	6,000	–	8,000	15,000
Michcon	–	–	5,200	–
Emerson	–	–	–	10,000
Total sales volume obligation	**10,000**	**–**	**25,400**	**40,000**

The following table presents the Company's oil and natural gas sales disaggregated by revenue source:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	**2021**	2020
Oil and natural gas revenue				
Natural gas[(1)(2)]	**6,110**	2,060	**12,132**	7,382
Oil	**5,445**	1,212	**9,477**	4,230
NGL	**1,671**	450	**3,153**	2,607
Total oil and natural gas revenue	**13,226**	3,722	**24,762**	14,219

(1) Includes revenues related to the market diversification contract of nil and $2.2 million for the three and six months ended June 30, 2021 (Q2 2020 – nil; YTD 2020 - nil). Also included are losses related to physical forward sales contracts which settled during of the period of $0.8 million for the three months ended June 30, 2021 (Q2 2020 – losses of $1.2 million) and losses of $1.6 million for the six months ended June 30, 2021 (YTD 2020 – losses of $2.8 million).

(2) Commencing April 1, 2020, natural gas revenue includes non-cash revenue related to production used in the settlement of the retained East Edson royalty obligation (Q2 2021 – $1.2 million; YTD 2021 – $2.3 million; Q2 2020 – $0.7 million; YTD 2020 – $0.7 million).

Included in accounts receivable at June 30, 2021 is $3.6 million of accrued oil and natural gas revenue related to June 2021 production (December 31, 2020 – $2.3 million related to December 2020 production).

17. FINANCE EXPENSE

The components of finance expense are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	**2021**	2020
Cash finance expense				
Interest on revolving bank debt	**252**	220	**528**	1,099
Interest on term loan	**–**	902	**–**	1,813
Interest on 2022 Senior Notes[(1)]	**–**	735	**(1,253)**	1,470
Interest on lease liabilities (note 12)	**39**	45	**79**	90
Total cash finance expense	**291**	1,902	**(646)**	4,472
Non-cash finance expense				
Interest paid in-kind on term loan (note 9)	**948**	–	**1,896**	–
Interest paid in-kind on 2025 Senior Notes [(1)] (note 10)	**767**	–	**2,824**	–
Gain on senior note maturity extension (note 10)	**–**	–	**(1,591)**	–
Amortization of debt issue costs	**180**	395	**558**	742
Accretion on decommissioning obligations (note 13)	**147**	100	**245**	266
Change in fair value of royalty obligations (note 11)	**1,913**	484	**3,022**	536
Total non-cash finance expense	**3,955**	979	**6,954**	1,544
Finance expense recognized in net income (loss)	**4,246**	2,881	**6,308**	6,016

(1) On January 22, 2021, Perpetual's 2022 Senior Notes were exchanged for 2025 Senior Notes, providing Perpetual the option to pay interest in-kind. Perpetual elected to pay the January 23, 2021 semi-annual interest of $1.5 million by a PIK Interest Payment. As a result, the previously accrued 2022 Senior Note cash interest of $1.3 million was reversed and replaced by $1.3 million of 2025 Senior Note non-cash interest expense. The Company satisfied the semi-annual interest payment due July 23, 2021 by making a PIK Interest Payment and has incurred $0.8 million and $1.5 million of non-cash interest expense for the three and six months ended June 30, 2021.

18. FINANCIAL RISK MANAGEMENT

Natural gas contracts

At June 30, 2021 the Company had entered into the following physical fixed price natural gas sales arrangements at AECO:

Term	**Sold/bought**	**Volumes (*GJ/d*)**	**Average price (*$/GJ*)**	**Fair Value (*$ thousands*)**
July 2021	Bought	10,000	3.05	60
July 2021	Sold	(17,500)	3.22	(18)
August 2021	Sold	(12,500)	2.93	(158)

In addition, at June 30, 2021, the Company had entered into various fixed price basis differential contracts between AECO and NYMEX for terms settling in 2021 that have been substantially locked-in by similar equal and offsetting arrangements having an aggregate fair value loss of $1.7 million.

Natural gas contracts - sensitivity analysis

As June 30, 2021, if future natural gas prices changed by $0.25 per GJ with all other variables held constant, the fair value of derivatives and net income for the period of the open contracts would change by $0.2 million. Fair value sensitivity was based on published forward AECO prices.

Oil contracts

At June 30, 2021, the Company had entered into the following physical fixed price oil sales arrangements which settle in US$:

Term	**Volumes (*bbls/d*)**	**Western Canadian Select ("WCS") (US*$/bbl*)**	**Fair Value (*$ thousands*)**
July 2021	201	49.95	(70)
August 2021	203	55.50	(29)

Term	**Volumes (*bbls/d*)**	**WTI-WCS differential (*US$/bbl*)**	**Fair Value (*$ thousands*)**
July 2021 – September 2021	358	(12.92)	52
July 2021 – December 2021	310	(13.25)	87

Oil contracts - sensitivity analysis

As at June 30, 2021, if future WTI oil prices changed by US$5.00 per bbl with all other variables held constant, the fair value of derivatives and net income for the period of the open contracts would change by $0.1 million.

As at June 30, 2021, if future WTI-WCS differential oil prices changed by US$5.00 per bbl with all other variables held constant, the fair value of derivatives and net income for the period of the open contracts would change by $0.6 million.

The following table is a summary of the fair value of the Company's derivative contracts by type:

	June 30, 2021	December 31, 2020
Physical natural gas contracts	**$ (1,812)**	$ (3,351)
Physical oil contracts	**40**	(22)
Fair value of derivatives	**$ (1,772)**	$ (3,373)
Derivative assets – current	**40**	–
Derivative liabilities – current	**(1,812)**	(3,373)
Fair value of derivatives	**$ (1,772)**	$ (3,373)

The following table details the Company's changes in fair value of derivatives:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	**2021**	2020
Unrealized gain (loss) on physical natural gas contracts	**634**	862	**1,539**	583
Unrealized gain (loss) on financial natural gas contracts	**–**	1,413	**–**	1,520
Unrealized gain (loss) on physical oil contracts	**531**	–	**62**	–
Unrealized gain (loss) on financial oil contracts	**–**	(3,800)	**–**	8,008
Unrealized gain (loss) on financial NGL contracts	**–**	(116)	**–**	351
Unrealized gain (loss) on financial foreign exchange contracts	**–**	30	**–**	70
Unrealized change in fair value of derivatives	**1,165**	(1,611)	**1,601**	10,532
Realized gain (loss) on financial natural gas contracts[1]	**(1,567)**	(1,622)	**(2,941)**	(3,427)
Realized gain (loss) on financial oil contracts	**–**	2,325	**–**	3,611
Realized gain (loss) on financial NGL contracts	**–**	(28)	**–**	(171)
Realized gain (loss) on financial foreign exchange contracts	**–**	(14)	**–**	(402)
Change in fair value of derivatives	**(402)**	(950)	**(1,340)**	10,143

(1) Includes realized losses of $1.6 million and $3.0 million for the three and six months ended June 30, 2021 from the elimination of the Company's market diversification contract obligations. There were no modifications to the market diversification contract for the three and six months ended June 30, 2020.

Fair value of financial assets and liabilities

The Company's fair value measurements are classified into one of the following levels of the fair value hierarchy:

Level 1 – inputs represent unadjusted quoted prices in active markets for identical assets and liabilities. An active market is characterized by a high volume of transactions that provides pricing information on an ongoing basis.

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These valuations are based on inputs that can be observed or corroborated in the marketplace, such as market interest rates or forecasted commodity prices.

Level 3 – inputs for the asset or liability are not based on observable market data.

The Company aims to maximize the use of observable inputs when preparing calculations of fair value. Classification of each measurement into the fair value hierarchy is based on the lowest level of input that is significant to the fair value calculation.

The fair value of cash and cash equivalents, accounts receivable, prepaid expenses and deposits, and accounts payable and accrued liabilities approximate their carrying amounts due to their short terms to maturity. The Credit Facility bears interest at a floating market rate, and accordingly, the fair market value approximates the carrying amount.

The fair value of the royalty obligations is estimated by discounting future cash payments based on the forecasted natural gas and NGL commodity prices multiplied by the royalty volumes. This fair value measurement is classified as level 3 as significant unobservable inputs, including the discount rate and forecasted natural gas and NGL commodity prices, are used in determination of the carrying amount. Discount rates of 12.0% to 12.2% were determined on inception of the agreements based on the characteristics of the instruments.

The fair value of financial assets and liabilities, excluding working capital, is attributable to the following fair value hierarchy levels:

				Fair value		
As at June 30, 2021	**Gross**	**Netting[1]**	**Carrying Amount**	**Level 1**	**Level 2**	**Level 3**
Financial assets						
Fair value through profit and loss						
Fail value of derivatives	8,745	(8,705)	40	–	40	–
Financial liabilities						
Financial liabilities at amortized cost						
Revolving bank debt	(15,239)	–	(15,239)	(15,239)	–	–
Senior notes	(33,705)	–	(33,705)	–	–	(36,403)
Term loan	(48,719)	–	(48,719)	–	–	(48,719)
Fair value through profit and loss						
Fair value of derivatives	(10,517)	8,705	(1,812)	–	(1,812)	–
Royalty obligations	(6,370)	–	(6,370)	–	–	(6,370)

(1) Derivative assets and liabilities presented in the statement of financial position are shown net of offsetting assets or liabilities where the arrangement provides for the legal right, and intention for net settlement exists.