MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is management's discussion and analysis ("MD&A") of Perpetual Energy Inc.'s ("Perpetual", the "Company" or the "Corporation") operating and financial results for the three and nine months ended September 30, 2021 as well as information and estimates concerning the Corporation's future outlook based on currently available information. This discussion should be read in conjunction with the Corporation's unaudited condensed interim consolidated financial statements and accompanying notes for the three and nine months ended September 30, 2021 as well as the audited consolidated financial statements and accompanying notes for the years ended December 31, 2020 and 2019. The MD&A should be read in conjunction with the Corporation's MD&A for the year ended December 31, 2020, as disclosure which is unchanged from the December 31, 2020 MD&A has not been duplicated herein. The Corporation's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") which require publicly accountable enterprises to prepare their financial statements using International Financial Reporting Standards ("IFRS"). Readers are referred to the advisories for additional information regarding forecasts, assumptions and other forward-looking information contained in the "Forward Looking Information and Statements" section of this MD&A. The date of this MD&A is November 11, 2021.

NATURE OF BUSINESS: Perpetual 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, and undeveloped bitumen leases in Northern Alberta. Additional information on Perpetual, including the most recently filed Annual Information Form, can be accessed at www.sedar.com or from the Corporation's website at www.perpetualenergyinc.com.

ADVISORIES

NON-GAAP MEASURES: The terms "adjusted funds flow", "adjusted funds flow per share", "adjusted funds flow per boe", "available liquidity", "cash costs", "net working capital deficiency", "net debt", "net bank debt", "net debt to adjusted funds flow ratio", "operating netback", "realized revenue", and "enterprise value" used in this MD&A are not recognized under GAAP. Management believes that in addition to net income (loss) and net cash flows from (used in) operating activities as defined by GAAP, these terms are useful supplemental measures to evaluate performance. Users are cautioned however that these measures should not be construed as an alternative to net income (loss) or net cash flows from (used in) operating activities determined in accordance with GAAP as an indication of Perpetual's performance and may not be comparable with the calculation of similar measurements by other entities.

Adjusted funds flow: Adjusted funds flow is calculated based on cash flows from (used in) operating activities, excluding changes in non-cash working capital and expenditures on decommissioning obligations since Perpetual believes the timing of collection, payment or incurrence of these items is variable. Expenditures on decommissioning obligations may vary from period to period depending on capital programs and the maturity of the Company's operating areas. Expenditures on decommissioning obligations are managed through the capital budgeting process which considers available adjusted funds flow. The Company has added back non-cash oil and natural gas revenue in-kind, equal to retained East Edson royalty obligation payments taken in-kind, to present the equivalent amount of cash revenue generated. The Company has also deducted payments of the gas over bitumen royalty financing from adjusted funds flow to present these payments net of gas over bitumen royalty credits received. These payments are indexed to gas over bitumen royalty credits and are recorded as a reduction to the Corporation's gas over bitumen royalty financing obligation in accordance with IFRS. Additionally, the Company has excluded payments of restructuring costs associated with employee downsizing costs, which management considers to not be related to cash flow from (used in) operating activities. Management uses adjusted funds flow and adjusted funds flow per boe as key measures to assess the ability of the Company to generate the funds necessary to finance capital expenditures, expenditures on decommissioning obligations, and meet its financial obligations.

Adjusted funds flow per share is calculated using the weighted average number of shares outstanding used in calculating net income (loss) per share. Adjusted funds flow is not intended to represent net cash flows from (used in) operating activities calculated in accordance with IFRS.

Adjusted funds flow per boe is calculated as adjusted funds flow divided by total production sold in the period.

The following table reconciles net cash flows from (used in) operating activities as reported in the Company's condensed interim consolidated statements of cash flows, to adjusted funds flow:

	Three months ended September 30,		Nine months ended September 30,	
($ thousands, except per share and per boe amounts)	**2021**	2020	**2021**	2020
Net cash flows from (used in) operating activities	**6,655**	(2,538)	**11,192**	(8,429)
Change in non-cash working capital	**(5,621)**	(176)	**(7,604)**	(2,494)
Decommissioning obligations settled (cash)	**(54)**	(62)	**377**	115
Oil and natural gas revenue in-kind	**1,282**	752	**3,613**	1,402
Payments of gas over bitumen royalty financing	**(88)**	(151)	**(558)**	(507)
Payments of restructuring costs	**-**	77	**-**	886
Adjusted funds flow	**2,174**	(2,098)	**7,020**	(9,027)
Adjusted funds flow per share	**0.03**	(0.03)	**0.11**	(0.15)
Adjusted funds flow per boe	**4.85**	(5.45)	**5.08**	(6.45)

Available Liquidity: Available Liquidity is defined as Perpetual's reserve-based first lien credit facility (the "Credit Facility") borrowing limit (the "Borrowing Limit"), less borrowings and letters of credit issued under the Credit Facility. Management uses available liquidity to assess the ability of the Company to finance capital expenditures and expenditures on decommissioning obligations, and to meet its financial obligations.

Cash costs: Cash costs are comprised of royalties, production and operating, transportation, general and administrative, and cash finance expense as detailed below. Cash costs per boe is calculated by dividing cash costs by total production sold in the period. Management believes that cash costs assist management and investors in assessing Perpetual's efficiency and overall cost structure.

($ thousands, except per boe amounts)	Three months ended September 30, 2021	2020	Nine months ended September 30, 2021	2020
Royalties	**1,620**	1,563	**6,134**	4,740
Production and operating	**3,159**	2,618	**9,997**	8,620
Transportation	**678**	761	**2,122**	2,813
General and administrative	**3,051**	1,656	**7,100**	5,876
Cash finance expense	**916**	1,960	**270**	6,432
Cash costs	**9,424**	8,558	**25,623**	28,481
Cash costs per boe	**21.01**	22.21	**18.55**	20.36

Realized revenue: Realized revenue is the sum of realized natural gas revenue, realized oil revenue, and realized natural gas liquids ("NGL") revenue which includes realized gains (losses) on financial natural gas, crude oil, NGL, and foreign exchange contracts. Realized revenue is used by management to calculate the Corporation's net realized commodity prices, taking into account the monthly settlements of financial crude oil and natural gas forward sales, collars, basis differentials, and forward foreign exchange sales. These contracts are put in place to protect Perpetual's adjusted funds flow from potential volatility in commodity prices and foreign exchange rates. Any related realized gains or losses are considered part of the Corporation's realized price.

Operating netback: Operating netback is calculated by deducting royalties, production and operating expenses, and transportation costs from realized revenue. Operating netback is also calculated on a per boe basis using total production sold in the period. Operating netback on a per boe basis can vary significantly for each of the Company's operating areas. Perpetual considers operating netback to be an important performance measure as it demonstrates its profitability relative to current commodity prices.

Net working capital deficiency: Net working capital deficiency includes total current assets and current liabilities excluding short-term derivative assets and liabilities related to the Corporation's risk management activities, revolving bank debt, second lien term loan (the "Term Loan"), current portion of royalty obligations, current portion of lease liabilities, and current portion of decommissioning obligations.

Net bank debt, net debt, and net debt to adjusted funds flow ratio: Net bank debt is measured as current and long-term revolving bank debt, including the net working capital deficiency. Net debt includes the carrying value of net bank debt, the principal amount of the Term Loan, and the principal amount of senior notes. Net debt, net bank debt, and net debt to adjusted funds flow ratios are used by management to assess the Corporation's overall debt position and borrowing capacity. Net debt to adjusted funds flow ratios are calculated on a trailing twelve-month basis.

Enterprise value: Enterprise value is equal to net debt plus the market value of issued equity, and is used by management to analyze leverage.

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

MATERIAL TRANSACIONS

On July 16, 2021, Perpetual announced the creation of a new wholly owned subsidiary, Rubellite Energy Inc. ("Rubellite" or "RBY") and the sale of all of Perpetual's Clearwater lands, wells, roads and related facilities in northeast Alberta (the "Clearwater Assets") to Rubellite. On September 3, 2021, the Plan of Arrangement involving Perpetual, the shareholders of Perpetual, and Rubellite was completed following approval of the plan by the shareholders of Perpetual at its special shareholder meeting held on August 31, 2021 and the receipt of the final order of the Court of Queen's Bench of Alberta approving the Plan of Arrangement. At this time, Rubellite exchanged 1.4 million Rubellite common shares valued at $2.8 million and 16.7 million arrangement warrants with Perpetual shareholders for 8.2 million Perpetual common shares valued at $2.8 million. This MD&A reflects operating results for Rubellite's Clearwater Assets up to the effective date of the Plan of Arrangement of September 3, 2021.

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

The Rubellite Financings were completed on October 5, 2021 at $2.00 per Rubellite common share equivalent and included:

(i) a backstopped Arrangement Warrant financing, which closed on October 5, 2021 and resulted in the issuance of 16.7 million Rubellite common shares for total proceeds of $33.5 million;

(ii) a non-brokered $20 million private placement financing (10 million Rubellite common shares) that closed on October 5, 2021; and

(iii) a brokered $30.0 million subscription receipt financing (15 million subscription receipts) that closed on July 13, 2021 with cash held in escrow by a third-party trustee that was released on October 5, 2021. On October 5, 2021, each subscription receipt issued was exchanged on a one-to-one basis for 15 million common shares of Rubellite.

On July 15, 2021, Rubellite entered into an agreement with a third party whereby it 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. The first of four Figure Lake commitment wells was spud on July 21, 2021 and three of four wells were rig released prior to the effective date of the Plan of Arrangement.

On July 15, 2021, Perpetual reached an agreement with its Term Loan lender for the settlement of principal and all 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 "AIMCo Bonus 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"). As part of the Second Lien Loan Settlement, the Term Loan lender committed to fully exercise the arrangement warrants it received under the Plan of Arrangement associated with its approximately 4.0% equity ownership of Perpetual. In addition, the Term Loan lender agreed to subscribe for $4.5 million of the Non-Brokered Private Placement and upon completion of the Transaction owned approximately 8.3% of the Rubellite common shares.

Upon closing of the Rubellite Financings on October 5, 2021, Perpetual received cash proceeds of approximately $53.6 million, and used the cash proceeds 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 has a Borrowing Limit of $17 million, reduced from the existing $20 million Borrowing Limit, with a maturity of May 31, 2023.

THIRD QUARTER 2021 HIGHLIGHTS

Third quarter production averaged 4,876 boe/d, up 16% from 4,188 boe/d in the comparative period of 2020. The increase was due to production from the eight (4.0 net) East Edson carried interest wells and the reactivation of heavy crude oil production which was shut-in during the second quarter of 2020 as oil prices recovered and stabilized, partially offset by the sale of the Clearwater oil assets. As of September 30, 2021, Perpetual had restarted substantially all heavy crude oil production that was initially suspended in late March 2020 in response to extremely low oil prices.

Exploration and development spending in the third quarter of 2021 was $9.9 million and included costs to drill five (4.5 net) Clearwater heavy crude oil wells, which formed part of the Rubellite Transaction that was effective September 3, 2021. At the 50% owned East Edson Property, three (1.5 net) wells were drilled including the final well of the 8 well carried interest commitment that formed part of the East Edson transaction which closed April 1, 2020

Realized revenue was $28.52/boe in the third quarter of 2021, higher than the comparative period of 2020 ($17.93/boe). The increase was due primarily to higher realized natural gas prices of $2.59/Mcf, which were significantly higher than the prior year period (Q3 2020 – $0.06/Mcf). Perpetual's realized gas price was reduced by $0.91/Mcf due to the elimination of the market diversification contract obligations for the April 1, 2022 to October 31, 2022 period, in consideration for the payment of $1.8 million over the term of the associated contract volumes. Excluding realized financial hedging gains, Perpetual's realized oil price was $65.19/bbl and realized NGL price was $65.37/bbl in the third quarter of 2021, higher than the third quarter of 2020 due to an increase in West Texas Intermediate ("WTI") benchmark prices and all natural gas liquid ("NGL") component prices which tracked the rise in WTI prices.

Cash costs were $9.4 million or $21.01/boe (Q3 2020 – $8.6 million and $22.21/boe; Q2 2021 - $9.0 million and $19.34/boe). Compared to the third quarter of 2020, total cash costs increased, reflecting higher royalties and production and operating expenses following the improvement in commodity prices and the increase in general and administrative costs as a result of professional fees associated with the Rubellite Transaction.

The Company generated net cash flow from operating activities of $6.7 million in the third quarter of 2021, which is higher than the prior year period (Q3 2020 – cash flow used in operating activities of $2.5 million). The increase was due to significantly higher realized prices for conventional natural gas, oil and NGLs, combined with the 16% increase in production and lower cash finance expense resulting from re-payment of the second lien term loan.

Adjusted funds flow in the third quarter of 2021 was $2.2 million ($0.03/share), up from the prior year period of negative $2.1 million ($0.03/share). The increase was due primarily to same variables that drove the increase in cash flow from operating activities and slightly lower cash costs per boe. Compared to the second quarter of 2021, adjusted funds flow increased (Q2 2021 - $2.3 million) primarily as a result of higher commodity prices, offset by the $1.8 million cost to eliminate the market diversification contract obligations for the April 1, 2022 to October 31, 2022 period, the 4% decrease in production and slightly higher cash costs.

Net income for the third quarter of 2021 was $51.1 million ($0.80/share), an improvement from the prior year period (Q3 2020 – net loss of $7.5 million; $0.12/share) and due primarily to a gain on disposition of the Clearwater Assets of $47.9 million. Excluding the gain, net income improved for the same reasons that impacted adjusted funds flow.

2021 OUTLOOK

On September 3, 2021, Perpetual and Rubellite completed the previously announced Plan of Arrangement involving Perpetual, the shareholders of Perpetual and Rubellite. The Rubellite Financings closed subsequent to the third quarter on October 5, 2021 and $53.6 million in promissory notes were repaid. The Rubellite Transactions provided a "full capital solution" for Perpetual by reducing Perpetual's net debt to $56.4 million at September 30, normalizing the balance sheet leverage ratios and surfacing incremental value from enhanced ability to fund the future development of its assets. The Rubellite Transactions have materially improved Perpetual's liquidity and will enhance Perpetual's ability to capture the inherent value in its asset base by funding investment opportunities to grow and sustain production and adjusted funds flow. Interest cost savings alone will improve Perpetual's adjusted funds flow by approximately $4 million annually. The general and administrative cost recoveries under the management services agreement with Rubellite will further enhance Perpetual's liquidity by approximately $2 to $3 million annually. Additionally, the 4.0 million Rubellite Share Purchase Warrants owned by Perpetual provide an opportunity for Perpetual to participate in value creation from Rubellite's Clearwater Assets over the next five years.

The Company's new $17 million Credit Facility has a maturity date that has been extended to May 31, 2023. As part of the Second Lien Loan Settlement, the maturity of the New Second Lien Term Loan, which is $2.7 million, has been extended to December 31, 2024.

Operationally, at Perpetual's 50% working interest East Edson property, the last of the 8-well carried interest commitment was drilled, completed and tied in during the third quarter and the joint venture partner drilled an additional six (3.0 net) wells targeting the Wilrich formation. Three of these 7 (3.5 net) wells have been completed and are on production while the remaining 4 (2.0 net) wells were completed and frac'd in early November and will be on production by mid-November. Perpetual's fourth quarter 2021 capital spending forecast in West Central Alberta includes funds to participate in the drilling, completion and tie-in of this East Edson program, targeting to fill the West Wolf gas plant to maximize natural gas and NGL sales through next winter.

Activity in Mannville in Eastern Alberta during the fourth quarter of 2021 will continue to be focused on waterflood optimization and battery consolidation projects as well as several shallow gas recompletions. Additionally, the Company has identified a number of horizontal, multi-lateral drilling opportunities targeting heavy oil at Mannville and modest capital spending is budgeted for preparatory work for first quarter 2022 activities.

Upon commencement of production from the four-well pad at East Edson, Perpetual's production is expected to exceed 6,000 boe/d later in the fourth quarter.

Consistent with guidance provided August 12, 2021, exploration and development capital spending for Perpetual for full year 2021 is expected to be $15 to $18 million, excluding spending recorded in Perpetual's consolidated third quarter financial statements related to Rubellite's Clearwater Assets prior to the effective date of the Plan of Arrangement. Capital spending will be funded using proceeds from the Rubellite Transactions, adjusted funds flow and the Credit Facility. The table below summarizes anticipated capital spending and drilling activities for Perpetual for the fourth quarter of 2021.

	Q4 2021 (*$ millions*)	**# of wells (*gross/net*)**
West Central[1]	$7 - $9	4/2.0
Eastern Alberta	$0 - $1	-
Total[2]	**$7 - $10**	**4/2.0**

(1) Capital to drill the four-well pad at East Edson was partially spent in the third quarter.
(2) Excludes abandonment and reclamation spending.

Perpetual continues its environmental, social, and corporate governance ("ESG") focus, with total abandonment and reclamation expenditures of up to $2.3 million planned in 2021, with an estimated $1.2 million to be funded through Alberta's Site Rehabilitation Program ("SRP"). The remaining $1.1 million will more than satisfy the Company's annual area-based closure spending requirements of $1.0 million.

THIRD QUARTER FINANCIAL AND OPERATING RESULTS

Capital expenditures

	Three months ended September 30,		Nine months ended September 30,	
($ thousands)	**2021**	2020	**2021**	2020
Exploration and development	**9,947**	251	**11,502**	5,511
Corporate assets	**-**	–	**2**	(38)
Capital expenditures	**9,947**	251	**11,504**	5,473
Acquisitions	**-**	133	**625**	222
Dispositions	**-**	–	**(202)**	(34,750)
Total	**9,947**	384	**11,927**	(29,055)

Exploration and development spending by area

	Three months ended September 30,		Nine months ended September 30,	
($ thousands)	**2021**	2020	**2021**	2020
West Central	**7,609**	102	**8,270**	35
Eastern Alberta[1]	**2,338**	149	**3,232**	5,476
Total	**9,947**	251	**11,502**	5,511

(1) Net of $4.1 million of payments received from the Figure Lake GORR financing for three (3.0 net) Figure Lake wells rig released prior to the effective date of the Plan of Arrangement.

Wells drilled by area

(gross/net)	Three months ended September 30, **2021**	2020	Nine months ended September 30, **2021**	2020
West Central - Edson[1]	**3.0/1.5**	2/1.0	**5.0/2.5**	2/1.0
Eastern Alberta – Clearwater Assets	**5.0/4.5**	-/-	**6.0/5.0**	4/4.0
Eastern Alberta – Mannville	**-/-**	-/-	**-/-**	-/-
Total	**8.0/6.0**	2/1.0	**11.0/7.5**	6/5.0

(2) Includes carried interest wells funded by the Edson joint venture partner.

Perpetual recorded exploration and development spending in the third quarter of 2021 was $9.9 million. At the 50% owned East Edson Property, spending of $0.7 million included costs to upgrade roads and to maintain and optimize production through well workovers, including the installation of plunger lifts on 25 wells. The eighth and final carried interest well at East Edson was spud July 26, 2021, pursuant to Perpetual's joint venture partner's carried interest drilling commitment following which Perpetual will be responsible for funding its 50% working interest share of future drilling costs. Two (1.0 net) additional extended reach horizontal wells targeting the Wilrich formation were drilled in the third quarter of 2021 and commenced production in late September. Late in the third quarter, drilling operations commenced on the final four (2.0 net) well pad in the 2021 drilling program. These four wells are now drilled and completed and are expected to be on production in mid to late November.

Spending in third quarter of 2021 in Eastern Alberta included costs to drill one (0.5 net) Clearwater heavy crude oil wells at Marten Hills and to drill four (4.0 net) Clearwater heavy crude oil wells at Figure Lake, net of funds for received from the Figure Lake GORR Financing prior to the effective date of the Plan of Arrangement. Year to date, six (5.0 net) wells were drilled in the Clearwater and formed part of the Rubellite Transactions which were accounted for effective September 3, 2021.

Acquisitions and Dispositions

During the nine months ended September 30, 2021, Perpetual participated for its 50% working interest in the acquisition of certain undeveloped lands, wells, pipelines and gross overriding royalties from third parties in the East Edson core area, for net consideration of $0.6 million. Dispositions included the sale of non-operated surplus equipment for net cash proceeds to Perpetual of $0.2 million and the sale of the Clearwater Assets to Rubellite for net consideration of $65.5 million.

Expenditures on decommissioning obligations

During the third quarter of 2021, Perpetual executed a nominal amount (Q3 2020 – nil) of abandonment and reclamation projects, bringing year-to-date expenditures on decommissioning obligations to $1.1 million (2020 – $0.1 million). Spending was partially offset by Alberta's Site Rehabilitation Program, which contributed $0.1 million and $0.7 million for the three and nine months ended September 30, 2021, respectively. SRP funding is presented on the condensed interim consolidated statements of loss and comprehensive loss as "other income". Perpetual has been approved for additional SRP funding of $0.5 million, the majority of which is expected to be spent in the fourth quarter of 2021.

As part of Perpetual's focus on well and pipeline abandonment and reclamation, 25 wells were abandoned and 12 reclamation certificates were received from the Alberta Energy Regulator ("AER") during the nine months ended September 30, 2021 (2020 – nine reclamation certificates), which will result in the cessation of associated property tax and surface lease expenses.

Operating netbacks

The following table highlights Perpetual's operating netbacks for the three and nine months ended September 30, 2021 and 2020:

($/boe) ($ thousands)	Three months ended September 30,	**2021**		2020	Nine months ended September 30,	**2021**		2020
Boe operating netback								
Production (*boe/d*)		**4,876**		4,188		**5,061**		5,106
Petroleum and natural gas revenue[1]	**32.55**	**14,603**	18.40	7,089	**28.49**	**39,365**	15.23	21,308
Realized gains (losses) on derivatives[2]	**(4.03)**	**(1,808)**	(0.47)	(181)	**(3.44)**	**(4,749)**	(0.41)	(570)
Royalties	**(3.61)**	**(1,620)**	(4.06)	(1,563)	**(4.44)**	**(6,134)**	(3.39)	(4,740)
Production and operating expenses	**(7.04)**	**(3,159)**	(6.79)	(2,618)	**(7.24)**	**(9,997)**	(6.16)	(8,620)
Transportation costs	**(1.51)**	**(678)**	(1.98)	(761)	**(1.54)**	**(2,122)**	(2.01)	(2,813)
Total operating netback	**16.36**	**7,339**	5.10	1,966	**11.83**	**16,364**	(3.26)	4,565

(1) Includes revenues related to the natural gas market diversification contract and physical forward sales contracts which settled during the period.
(2) Includes realized gains and losses on financial derivatives and financial prompt month price optimization contracts.

Perpetual's operating netback of $7.3 million ($16.36/boe) in the third quarter of 2021 increased from $2.0 million ($5.10/boe) in the comparative period of 2020. This increase was due to the increase in realized revenue on higher prices combined with average production that was 16% higher than the prior year period. The increase in production was the result of the reactivation of heavy crude oil production as oil prices recovered and stabilized, combined with increased conventional natural gas production from the eight (4.0 net) East Edson carried interest wells. Higher realized revenue per boe was due to increased AECO Index prices, and Western Canadian Select ("WCS") benchmark oil prices and higher realized NGL prices.

For the third quarter of 2021, royalties and production and operating expenses increased significantly due to the increase in production volumes, combined with higher reference prices for all products. Transportation costs of $0.7 million were comparable to the third quarter of 2020 despite higher production, due to the elimination of unutilized firm capacity natural gas demand charges that were incurred in the comparative period of 2020.

Perpetual's operating netback of $16.4 million ($11.83/boe) for the nine months ended September 30, 2021 increased from $4.6 million ($3.26/boe) in the comparative period of 2020. The increase was due to higher revenue driven by increased pricing for all commodities, which more than offset higher royalties and production and operating expenses.

Production

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	**2021**	2020
Production				
Conventional natural gas (Mcf/d)[1]	**21,622**	16,322	**22,232**	22,170
Heavy crude oil (bbl/d)	**972**	1,193	**1,047**	1,029
NGL (bbl/d)[3]	**300**	273	**309**	382
Total production (*boe/d*)	**4,876**	4,188	**5,061**	5,106

(1) Conventional natural gas production yielded a heat content of 1.17 GJ/Mcf for the three months ended September 30, 2021 (Q3 2020 – 1.17), resulting in higher realized natural gas prices on a $/Mcf basis. See "Commodity Prices".
(2) Production from West Central is conventional light crude oil.
(3) Primarily related to West Central liquids-rich conventional natural gas.

Third quarter production averaged 4,876 boe/d, up 16% from 4,188 boe/d in the comparative period of 2020. In the third quarter of 2021, the production mix was comprised of 74% conventional natural gas and 26% heavy crude oil and NGL, comparable to the second quarter of 2021 and down from 35% heavy crude oil and NGL in the third quarter of 2020.

Third quarter conventional natural gas production averaged 21,622 Mcf/d in West Central Alberta, up 32% from 16,322 Mcf/d in the comparative period of 2020 with production additions from the eight (4.0 net) East Edson carried interest wells, offset by natural declines. During 2020, conventional natural gas production was impacted by the sale of a 50% working interest in the East Edson property in the second quarter of 2020, combined with the prior deferral of capital investment for drilling and completions in response to low AECO natural gas prices.

Third quarter NGL production was 300 bbl/d, 10% higher than the comparative period of 2020. The increase in NGL production is closely tied to higher conventional natural gas production at East Edson, where NGL yields were 13.9 bbls per MMcf in the third quarter of 2021 (Q3 2020 – 16.7 bbls per MMcf). Perpetual's average NGL sales composition for the third quarter of 2021 consisted of 67% condensate, higher than the prior year period when condensate represented 61% of total NGL production.

Heavy crude oil production was 19% lower than the third quarter of 2020, due primarily to natural declines and the sale of the Clearwater Assets which has been reflected in the third quarter financial statements effective September 3, 2021. For much of 2020, Perpetual had temporarily shut-in heavy crude oil production in response to the significant decline in global oil prices which began in late March 2020. The Company began reactivating certain low-cost heavy production in mid-May 2020 and continued to add production as oil prices strengthened.

For the nine months ended September 30, 2021, production decreased 1% to 5,061 boe/d compared to 5,106 boe/d in the prior year period. Production levels steadily increased following the 50% working interest disposition of the East Edson properties in the second quarter of 2020, as the eight (4.0 net) carried interest wells were progressively drilled and brought on production until the third quarter of 2021 when production declined slightly due to the disposition of the Clearwater oil assets.

Revenue

	Three months ended September 30,		Nine months ended September 30,	
(*$ thousands, except as noted*)	**2021**	2020	**2021**	2020
Petroleum and natural gas revenue				
Natural gas[1]	**6,966**	2,445	**19,098**	9,827
Oil	**5,832**	3,939	**15,309**	8,169
NGL	**1,805**	705	**4,958**	3,312
Total petroleum and natural gas revenue	**14,603**	7,089	**39,365**	21,308
Realized gains (losses) on derivatives[2]	**(1,808)**	(181)	**(4,749)**	(570)
Realized revenue	**12,795**	6,908	**34,616**	20,738
Unrealized gains (losses) on derivatives	**830**	194	**2,431**	10,726
Total revenue	**13,625**	7,102	**37,047**	31,464
Realized revenue (*$/boe)*	**28.52**	17.93	**25.05**	14.82
Total revenue (*$/boe)*	**30.37**	18.43	**26.81**	22.49

(1) Includes revenues related to the market diversification contract and physical forward sales contracts which settled during the period.
(2) Includes realized gains and losses on financial derivatives and certain financial prompt month price optimization contracts.

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	**2021**	2020
Reference prices				
NYMEX Daily Index (*US$/MMBtu*)	**4.01**	1.98	**3.18**	1.88
AECO 5A Daily Index (*$/GJ*)	**3.54**	2.12	**3.11**	1.98
AECO 5A Daily Index (*$/Mcf*)(1)	**3.60**	2.24	**3.28**	2.09
West Texas Intermediate ("WTI") light oil (*US$/bbl*)	**70.56**	40.93	**64.83**	38.32
Western Canadian Select ("WCS") differential (*US$/bbl*)	**(13.58)**	(9.09)	**(12.51)**	(13.69)
WCS average (*Cdn$/bbl*)(2)	**71.81**	42.35	**65.46**	33.25
Average Perpetual realized prices				
Natural gas (*$/Mcf*)(1)				
AECO Daily Index	**3.60**	2.24	**3.28**	2.09
Heat content premium(2)	**0.39**	0.24	**0.35**	0.23
Market diversification contract(4)	**(0.91)**	–	**(0.88)**	–
Realized gains (losses) on financial and physical gas derivatives	**(0.44)**	(2.40)	**(0.41)**	(1.62)
Realized gains (losses) on prompt month price optimization	**(0.05)**	(0.02)	**0.02**	(0.03)
Realized natural gas price (*$/Mcf*)	**2.59**	0.06	**2.36**	0.67
Percent of AECO Daily Index	**72%**	3%	**72%**	32%
Realized oil price (*$/bbl*)	**65.19**	55.71	**53.56**	48.06
Realized NGL price (*$/bbl*)	**65.37**	28.09	**58.84**	30.01

(1) Converted from $/GJ using a standard energy conversion rate of 1.055 GJ:1 Mcf.
(2) Derived using the Bank of Canada average foreign exchange rate of US$1.00 = Cdn$1.26 for the three months ended September 30, 2021 (Q3 2020 – $1.33) and $1.25 for the nine months ended September 30, 2021 (2020 – $1.35).
(3) Realized natural gas prices are at a premium to the AECO Daily Index due to higher average heat content of 1.17 GJ/Mcf. For the three and nine months ended September 30, 2021, Perpetual received an 11% premium to the AECO Daily Index (three and nine months ended September 30, 2020 – 11%) related to its higher average heat content.
(4) For the third quarter of 2021, realized losses on derivatives include $1.8 million ($0.91/Mcf) of losses from the elimination of the Company's market diversification contract obligations for the period April 1, 2022 through October 31, 2022. For the nine months ended September 30, 2021, realized losses on derivatives include an aggregate $4.7 million ($0.78/Mcf) of losses from the elimination of the Company's future market diversification contract obligations.

Perpetual recorded petroleum and natural gas ("P&NG") revenue, before financial derivatives, of $14.6 million for the third quarter of 2021. Compared to the prior year period, P&NG revenue was more than 2 times higher (Q3 2020 – $7.1 million), due to the 16% increase in average daily production combined with the impact of significantly higher reference prices for all products. For the nine months ended September 30, 2021, P&NG revenue increased 85% compared to the prior year period, due to higher reference prices for all products, partially offset by the 1% decrease in average daily production.

Natural gas revenue, before financial derivatives, of $7.0 million in the third quarter of 2021 comprised 48% (Q3 2020 – 34%) of total P&NG revenue while natural gas production was 74% (Q3 2020 – 65%) of total production. Natural gas revenue was approximately three times higher than the third quarter of 2020 (Q3 2020 – $2.4 million), reflecting the impact of the 32% increase in conventional natural gas production volumes through the East Edson carried interest drilling commitment, combined with significantly higher AECO Daily Index prices of $3.54/GJ (Q3 2020 – $2.12/GJ). Higher AECO prices were partially offset by realized market diversification contract and hedging losses on financial and physical gas derivatives. The Company continued to realize physical hedging losses on AECO-NYMEX basis hedge positions that were locked-in during the second quarter of 2020.

Oil revenue of $5.8 million represented 40% (Q3 2020 – 56%) of total P&NG revenue while oil production was 20% (Q3 2020 – 28%) of total production. Oil revenue was 2.6 times higher than the same period in 2020, due to the significant increase in WTI light oil and WCS average prices, partially offset by a 19% decrease in heavy crude oil production from the sale of the Clearwater oil assets. The 70% increase in the WCS average price was mainly due to the 72% increase in WTI light oil prices to US$70.56/bbl and increase in WCS differentials to US$13.58/bbl (Q3 2020 - US$9.09/bbl). For the nine months ended September 30, 2021, oil revenue increased 87% compared to the prior year period, due primarily to the increase in the WCS average price to $65.46/bbl (2020 – $33.25/bbl).

NGL revenue for the third quarter of 2021 was $1.8 million, representing 12% (Q3 2020 – 10%) of total P&NG revenue while NGL production was just 6% (Q3 2020 – 7%) of total Company production. Perpetual's realized NGL price for the third quarter of 2021 was $58.84/bbl, higher than the third quarter of 2020 due to an increase in all NGL component prices which tracked the rise in WTI light oil prices.

Realized losses on derivatives totaled $1.8 million for the third quarter of 2021, compared to losses of $0.2 million for the same period of 2020. The realized loss in the current period was comprised of $1.8 million from the elimination of the Company's 25,400 MMBtu/d natural gas market diversification contract obligations for the April 1, 2022 to October 31, 2022 period (Q3 2020 – $2.4 million realized loss from natural gas derivatives). During the third quarter of 2021, there were no realized financial hedging gains or losses from oil or NGL derivatives (Q3 2020 – $2.2 million realized gain).

For the third quarter of 2021, Perpetual recorded an unrealized gain on derivatives of $0.8 million (Q3 2020 – $0.2 million unrealized loss). Unrealized gains and losses represent the change in mark-to-market value of derivative contracts as forward commodity prices and foreign exchange rates change. Unrealized gains and losses on derivatives are excluded from the Corporation's calculation of cash flow from operating activities as they are non-cash. Derivative gains and losses vary depending on the nature and extent of derivative contracts in place, which in turn, vary with the Corporation's assessment of commodity price risk, committed capital spending and other factors.

Royalties

($ thousands, except as noted)	Three months ended September 30, 2021	2020	Nine months ended September 30, 2021	2020
Natural gas royalties - crown	**(599)**	198	**(334)**	333
Oil royalties – crown	**178**	117	**521**	273
NGL royalties – crown	**240**	160	**656**	325
Total crown	**(181)**	475	**843**	931
Natural gas royalties – freehold and overriding	**1,119**	659	**3,096**	2,533
Oil royalties – freehold and overriding	**352**	279	**1,228**	629
NGL royalties – freehold and overriding	**329**	150	**967**	647
Total freehold and overriding(1)	**1,800**	1,088	**5,291**	3,809
Total royalties	**1,619**	1,563	**6,134**	4,740
Crown *(% of P&NG revenue)*	**(1.2)**	6.7	**2.1**	4.4
Freehold and overriding *(% of P&NG revenue)*	**12.3**	15.3	**13.4**	17.9
Total *(% of P&NG revenue)*	**11.1**	22.0	**15.6**	22.3
$/boe	**3.61**	4.06	**4.44**	3.39

For the third quarter of 2021, royalties were $1.6 million, a 4% decrease from the comparative period of 2020 as a result of prior period crown royalty adjustments, partially offset by increased production and P&NG revenue. The combined average royalty rate on P&NG revenue decreased from 22% in the third quarter of 2020 to 11.1% in 2021, due primarily to the impact of the prior period crown royalty adjustment and the fixed volume East Edson gross overriding royalty as a percentage of higher production. For the nine months ended September 30, 2021, royalties were $6.1 million (2020 – $4.7 million), 29% higher than the prior year period. The increase reflects an increase in the average Alberta Gas Reference price and AECO Daily Index prices which are used to calculate crown and freehold natural gas royalties, respectively.

Freehold and overriding royalties of $1.8 million increased 66% from the third quarter of 2020, due primarily to the impact of higher AECO Daily Index, WCS and Alberta reference prices which are used to calculate freehold and crown royalties and increased production. As part of the East Edson Transaction, Perpetual agreed to retain its joint venture partner'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. This obligation has been recorded in the condensed interim consolidated statement of financial position under the heading "Royalty obligations". 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.

Production and operating expenses

($ thousands, except as noted)	Three months ended September 30, 2021	2020	Nine months ended September 30, 2021	2020
Production and operating expenses	**3,159**	2,618	**9,997**	8,620
$/boe	**7.04**	6.79	**7.24**	6.16

Total production and operating expenses increased 4% on a unit-of-production basis to $7.04/boe for the third quarter of 2021, compared to $6.79/boe for the comparable period of 2020. On an absolute dollar basis, production and operating costs increased by 21% due to increased production. Conventional natural gas production increased from the third quarter of 2020 following the addition of eight (4.0 net) carried interest wells at East Edson, partially offset by a decrease in oil production as a result of natural declines and the sale of the Clearwater Assets.

For the nine months ended September 30, 2021, production and operating expenses increased by 18% on a unit-of-production basis to $7.24/boe, compared to $6.16/boe for the comparable period of 2020. The increase was due to the reactivation of heavy crude oil production in Eastern Alberta which is higher cost as compared to the Company's other operating areas.

Transportation costs

($ thousands, except as noted)	Three months ended September 30, 2021	2020	Nine months ended September 30, 2021	2020
Transportation costs	**678**	761	**2,122**	2,813
$/boe	**1.51**	1.98	**1.54**	2.01

Transportation costs include clean oil trucking and NGL transportation, as well as costs to transport natural gas from the plant gate to commercial sales points. Transportation costs in the third quarter of 2021 were $0.7 million, comparable to the prior year period. On a unit-of-production basis, company-wide transportation costs decreased by 24% from $1.98/boe in the third quarter of 2020 to $1.51/boe in the same period of 2021, due to a reduction in Perpetual's natural gas firm transportation capacity, eliminating unutilized demand charges at East Edson, which took effect in the third quarter of 2020.

For the nine months ended September 30, 2021, transportation costs decreased by 24% on a unit-of-production basis to $1.54/boe, compared to $2.01/boe for the comparable period of 2020. The decrease was due to the reduction in Perpetual's natural gas firm transportation capacity.

Exploration and evaluation ("E&E") expenses

	Three months ended September 30,		Nine months ended September 30,	
($ thousands)	**2021**	2020	**2021**	2020
Total E&E expense	**74**	87	**93**	229

Exploration and evaluation expenses include lease rentals on undeveloped acreage, geological and geophysical costs, and the write-down of carrying costs related to lease expiries. During the nine month period ended September 30, 2021, the Company did not record any non-cash write-downs (2020 – $0.1 million) associated with expiring P&NG leases.

General and administrative ("G&A") expenses

	Three months ended September 30,		Nine months ended September 30,	
($ thousands, except as noted)	**2021**	2020	**2021**	2020
G&A expense before recoveries	**3,223**	1,714	**7,504**	6,289
Overhead recoveries	**(172)**	(58)	**(404)**	(413)
Total G&A expense	**3,051**	1,656	**7,100**	5,876
$/boe	**6.80**	4.30	**5.14**	4.20

During the third quarter of 2021, G&A expense was $3.1 million, an increase of 84% from the prior year period of $1.7 million. For the nine months ended September 30, 2021, G&A expense was $7.1 million, an increase of 21%. On a unit-of-production basis, total G&A expense was up 22% to $5.14/boe for the nine months ended September 30, 2021 (2020 – $4.20/boe). The increase in G&A was related to the restoration to first quarter 2020 levels of employee salaries and wages which had been reduced by close to 20% in response to the collapse in commodity prices in March 2020 and increased professional fees related to the Rubellite Transaction. For the three and nine months ended September 30, 2021, Perpetual received payments from the Canada Emergency Wage Subsidy ("CEWS") and Canada Emergency Rent Subsidy ("CERS") programs which reduced general and administrative expenses by $0.1 million and $0.7 million, respectively.

Overhead recoveries of $0.4 million were consistent with the prior year period (Q3 2020 – $0.4 million). Despite increased capital expenditures and higher cash G&A costs, overhead recoveries were consistent year-over-year due to a one-time timing adjustment.

Share-based payments

	Three months ended September 30,		Nine months ended September 30,	
($ thousands, except as noted)	**2021**	2020	**2021**	2020
Share-based payments (non-cash)	**199**	98	**451**	413
Share-based payments (cash)	**375**	365	**1,125**	1,087
Total share-based payments	**574**	463	**1,576**	1,500

Share-based payments expense for the three months ended September 30, 2021 was $0.6 million, comparable to the prior year period. For the nine months ended September 30, 2021, share-based payments expense was $1.6 million (2020 – $1.5 million). During the nine months ended September 30, 2021, 1.3 million share options, 1.7 million performance share rights, and 0.3 million deferred shares were granted to Officers and Directors of the Company.

Depletion and depreciation

	Three months ended September 30,		Nine months ended September 30,	
($ thousands, except as noted)	**2021**	2020	**2021**	2020
Depletion and depreciation	**3,656**	3,447	**9,838**	12,627
$/boe	**8.15**	8.95	**7.12**	9.03

Perpetual recorded $3.7 million of depletion and depreciation expense for the three months ended September 30, 2021, an increase of 6% from the prior year period (Q3 2020 – $3.4 million) owing to the disposition of the Clearwater Assets. Depletion and depreciation expense of $8.15/boe was 8% lower than the prior year period (Q3 2020 – $8.95/boe), due primarily to the disposition of the Clearwater Assets and increased production.

Impairment and impairment reversals

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

During the second quarter of 2021, the Company determined that indictors of impairment reversal existed and 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.

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

Finance expenses

($ thousands)	Three months ended September 30, 2021	2020	Nine months ended September 30, 2021	2020
Cash finance expense				
Interest on revolving bank debt	**275**	270	**803**	1,369
Interest on term loan	**-**	911	**-**	2,724
Interest on 2022 Senior Notes[(1)]	**608**	735	**(645)**	2,205
Interest on lease liabilities	**33**	44	**112**	134
Total cash finance expense	**916**	1,960	**270**	6,432
Non-cash finance expense				
Interest paid in-kind on term loan	**847**	–	**2,743**	–
Interest paid in-kind on 2025 Senior Notes[(1)]	**178**	–	**3,002**	–
Gain on senior note maturity extension	**-**	–	**(1,591)**	–
Gain on Term Loan extinguishment[(2)]	**(6,820)**	-	**(6,820)**	-
Amortization of debt issue costs	**169**	429	**727**	1,171
Accretion on decommissioning obligations	**140**	81	**385**	347
Change in fair value of other liability[(3)]	**1,028**	-	**1,028**	-
Change in fair value of royalty obligations	**1,742**	1,683	**4,764**	2,219
Total non-cash finance expense	**(2,716)**	2,193	**4,238**	3,737

(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 but has accrued cash interest for the remainder of the third quarter.

(2) Perpetual's Term Loan was extinguished in exchanged for the payment of $38.5 million in cash, delivery of 0.7 million Rubellite Shares and the entry into a new second lien term loan of $2.7 million.

(3) Pursuant to the terms of the Second Lien Loan Settlement, Perpetual is committed to pay up to $4.5 million in potential contingent payments in the event that Perpetual's annual average realized crude oil and natural gas prices exceed certain thresholds over the three year period ended December 31, 2023. The fair value of the contingent liability is shown in the statement of financial position as "Other Liability". The payment in 2022 is capped at $0.4 million; 2023 is capped at $1.3 million; and in 2024 the payment is capped at $2.8 million for a maximum total obligation of $4.5 million. At September 30, 2021 the Company estimated the fair value of the contingent liability to be $1.2 million (December 31, 2020 - nil).

Total cash finance expense was $0.9 million for the third quarter of 2021, 53% lower than the prior year period (Q3 2020 – $2.0 million) due primarily to payment of interest on the Term Loan in-kind rather than in cash.

Total non-cash finance expense for the three months ended September 30, 2021 was a recovery of $2.7 million (Q3 2020 – $2.2 million), due the extinguishment of the Term Loan, partially offset by a change in the fair value of the royalty obligations due to changing AECO natural gas and NGL prices and the recognition of fair value of "other liability" related to contingent payments related to the Second Lien Loan Settlement.

On January 22, 2021, the Company exchanged its unsecured 2022 Senior Notes for new $33.6 million secured 8.75% third lien senior notes due January 23, 2025. 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 (a "PIK Interest Payment"). The Company elected to pay the January 23, 2021 and July 23, 2021 semi-annual interest payments by a PIK Interest Payment, which increased the principal amount of the 2025 Senior Notes outstanding to $36.6 million on July 23, 2021. Perpetual intends to pay the January 23, 2022 semi-annual interest payment in cash.

The Company recorded a net gain on the senior note maturity extension of $1.6 million, representing the difference between the carrying amount of 2022 Senior Notes of $34.5 million and the present value of the modified cash flows for the 2025 Senior Notes of $32.9 million, discounted at an effective interest rate of 12.4%. The gain has been recorded as a reduction of non-cash finance expense.

On September 3, 2021, upon completion of the Plan of Arrangement, Perpetual's agreement with its Term Loan lender for the settlement of principal and all interest owing on the Term Loan was accounted for as being effective. Perpetual extinguished the previous Term Loan in exchange for the payment of approximately $38.5 million in cash (reflected as current Term Loan payable on the statement of financial position), the delivery by Perpetual of the AIMCo Bonus Shares at a value of $1.4 million, the issuance of a new $2.7 million second lien Term Loan bearing interest at 8.1% annually and maturing December 31, 2024 (the "New Term Loan") and up to an aggregate $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").

LIQUIDITY AND CAPITAL RESOURCES

Perpetual's strategy targets the maintenance of a strong capital base to retain investor, creditor and market confidence to support the execution of its business plans. The Company manages its capital structure and adjusts its capital spending in light of changes in economic conditions such as depressed commodity prices, available liquidity, and the risk characteristics of its underlying oil and natural gas assets. The Company considers its capital structure to include share capital, senior notes, the Term Loan, revolving bank debt, and net working capital. To manage its capital structure and available liquidity, the Company may from time to time issue equity or debt securities, sell assets, and adjust its capital spending to manage current and projected debt levels. The Company will continue to regularly assess changes to its capital structure and repayment alternatives, with considerations for both short-term liquidity and long-term financial sustainability.

Capital management

($ thousands, except as noted)	**September 30, 2021**	December 31, 2020
Revolving bank debt	**13,183**	17,495
Term loan, principal amount	**2,671**	46,823
Senior notes, principal amount	**36,583**	33,580
Net working capital deficiency (surplus)(1)	**3,914**	7,099
Net debt(1)	**56,351**	104,997
Shares outstanding at end of period (*thousands*)(2)	**63,892**	61,305
Market price at end of period (*$/share*)	**0.32**	0.08
Market value of shares	**20,445**	4,904
Enterprise value(1)	**76,796**	109,901
Net debt as a percentage of enterprise value	**73**	96
Trailing twelve-months adjusted funds flow(1)	**8,971**	(7,787)

(1) See "Non-GAAP measures" in this MD&A.
(2) Shares outstanding are presented net of shares held in trust.

At September 30, 2021, Perpetual had total net debt of $56.4 million, a significant reduction from June 30, 2021 and December 31, 2020 as a result of the Rubellite Transactions and the extinguishment of the Term Loan.

Perpetual had available liquidity at September 30, 2021 of $5.0 million, comprised of the $20.0 million Credit Facility Borrowing Limit, less current borrowings and letters of credit of $13.2 million and $1.0 million, respectively.

On October 5, 2021, Perpetual received cash proceeds of approximately $53.6 million, and used the cash proceeds 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. In addition, the borrowing limit on the Credit Facility was reduced from $20 million to $17 million, and the maturity was extended from November 15, 2021 to May 31, 2023.

Revolving bank debt

At September 30, 2021, the Company's Credit Facility had a borrowing limit of $20 million (December 31, 2020 – $20.0 million) under which $13.2 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 September 30, 2021 was 5.5%. For the period ended September 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 $0.1 million.

Subsequent to September 30, 2021, the Credit Facility Borrowing Limit was reduced from $20 million to $17 million, and the term was extended to November 30, 2022 with 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.

The Credit Facility is secured by general first lien security agreements covering all present and future property of the Company and its subsidiaries. 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 September 30, 2021, the Credit Facility was not subject to any financial covenants and the Company was in compliance with all customary non-financial covenants.

Term loan

			September 30, 2021		December 31, 2020	
	Maturity date	**Interest rate**	**Principal**	**Carrying Amount**	Principal	Carrying amount
Term loan	November 30, 2021	8.1%	**$ 2,671**	**$ 2,482**	$ 46,823	$ 46,691

On July 15, 2021, Perpetual and its Term Loan lender entered into an agreement establishing the terms and conditions of the Second Lien Loan Settlement. On September 3, 2021, upon completion of the Plan of Arrangement, Perpetual's agreement with its Term Loan lender for the settlement of principal and accrued interest owing on the Term Loan was accounted for as being effective. Perpetual substantively modified the previous Term Loan for the payment of approximately $38.5 million in cash (reflected as current term loan payable on the statement of financial position), the delivery by Perpetual of 0.7 million Rubellite common shares (AIMCo Bonus Shares) at a value of $1.4 million, the issuance of a new $2.7 million second lien Term Loan, and up to an aggregate of $4.5 million in potential contingent payments in the event that Perpetual's annual average realized oil and natural gas prices exceed certain thresholds. The New Term Loan bears interest at 8.1% annually, which Perpetual may elect to pay-in-kind, and will mature on December 31, 2024. The current Term Loan payable was repaid on October 5, 2021.

The Term Loan lender agreed to allow $1.8 million of interest due on the December 31, 2020 to be paid-in-kind and added to the outstanding principal amount of the loan and all other interest owing on the Term Loan to be settled as part of the Second Lien Loan Settlement. Non-cash paid in-kind interest of $0.8 million has been recorded in the third quarter of 2021 (YTD 2021 – $2.7 million), which increased the principal amount of the Term Loan owing upon settlement to $49.6 million. As a result of the September 3, 2021 substantive modification of the Term Loan, the carrying amount of $49.6 million was in excess of the consideration received of $42.8 million, resulting in a gain of $6.8 million being recognized).

The New Term Loan has a cross-default provision with the Credit Facility and contains substantially similar provisions and covenants as the Credit Facility. 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.

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

Senior notes

			September 30, 2021		December 31, 2020	
	Maturity date	**Interest rate**	**Principal**	**Carrying Amount**	Principal	Carrying amount
Senior notes	January 23, 2025	8.75%	**$ 36,583**	**$ 34,065**	$ 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, and satisfied the semi-annual interest payment due July 23, 2021 by making a PIK Interest Payment of $1.6 million, increasing the principal amount owing at September 30, 2021 to $36.6 million. The Company currently intends to satisfy the January 23, 2022 semi-annual interest payment by making a cash payment and has recorded cash interest of $0.6 million in the third quarter of 2021.

At September 30, 2021, the senior notes are recorded at the present value of future cash flows, net of $2.5 million in issue and principal discount costs which are amortized over the remaining term using a weighted average effective interest rate of 11.2%.

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 September 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.

Equity

At September 30, 2021 there were 64.1 million common shares outstanding, net of 0.2 million shares held in trust to resource employee compensation programs. During the nine months ended September 30, 2021, no shares were purchased by the independent trustee to be held in trust (2020 – nil). Basic weighted average shares outstanding for the three months ended September 30, 2021 were 63.8 million (Q3 2020 – 61.2 million) and 62.7 million for the nine months ended September 30, 2021 (2020 – 60.9 million). Diluted weighted average shares outstanding for the three months ended September 30, 2021 were 71.2 million (Q3 2020 – 61.2 million) and 70.0 million for the nine months ended September 30, 2021 (2020 – 60.9 million).

At November 11, 2021 there were 64.1 million common shares outstanding which is net of 0.2 million shares held in trust for employee compensation programs. In addition, the following potentially issuable common shares were outstanding as at the date of this MD&A:

(millions)	**November 11, 2021**
Compensation awards	**4.1**
Share options	**8.3**
Performance share rights	**5.1**
Total(1)	**17.6**

(1) 4.8 million compensation awards, 0.7 million share options, and 2.3 million performance share rights have an exercise price below the September 30, 2021 closing price of the Company's common shares of $0.32 per share.

SEQUOIA LITIGATION UPDATE

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 a 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").

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.

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.

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.

SUMMARY OF QUARTERLY RESULTS

($ thousands, except as noted)	**Q3 2021**	Q2 2021	Q1 2021	Q4 2020
Financial				
Oil and natural gas revenue	**14,603**	13,226	11,536	8,178
Net income (loss)	**51,141**	27,017	(2,706)	14,443
Per share – basic	**0.80**	0.43	(0.04)	0.24
Per share – diluted	**0.72**	0.38	(0.04)	0.24
Cash flow from (used in) operating activities	**6,655**	2,854	1,682	(1,104)
Adjusted funds flow(1)	**2,174**	2,302	2,544	1,240
Per share – basic and diluted	**0.03**	0.04	0.04	0.02
Capital expenditures	**9,947**	1,554	3	466
Net proceeds on acquisitions and dispositions	**-**	(46)	469	–
Net capital expenditures	**9,947**	1,508	472	466
Common shares *(thousands)*				
Weighted average – basic and diluted	**63,801**	62,574	61,603	61,266
Operating				
Daily average production				
Natural gas *(MMcf/d)*	**21.6**	22.2	22.9	19.5
Oil *(bbl/d)*	**972**	1,074	1,097	1,241
NGL *(bbl/d)*	**300**	331	294	237
Total *(boe/d)*	**4,876**	5,099	5,211	4,730
Average prices				
Realized natural gas price *($/Mcf)*(2)	**2.59**	2.25	2.25	1.46
Realized oil price *($/bbl)*	**65.19**	55.75	40.85	52.60
Realized NGL price *($/bbl)*	**65.37**	55.48	56.03	38.03

($ thousands, except as noted)	Q3 2020	Q2 2020	Q1 2020	Q4 2019
Financial				
Oil and natural gas revenue	7,089	3,722	10,497	15,830
Net income (loss)	(7,491)	(8,831)	(59,718)	(32,498)
Per share – basic	(0.12)	(0.15)	(0.98)	(0.54)
Per share – diluted	(0.12)	-	-	-
Cash flow from (used in) operating activities	(2,538)	(2,777)	(3,114)	(1,290)
Adjusted funds flow(1)	(2,098)	(3,328)	(3,601)	340
Per share – basic and diluted	(0.03)	(0.05)	(0.06)	0.01
Capital expenditures	251	(11)	5,233	1,995
Net proceeds on acquisitions and dispositions	133	(34,661)	–	–
Net capital expenditures	384	(34,672)	5,233	1,995
Common shares *(thousands)*				
Weighted average – basic and diluted	61,200	60,776	60,674	60,444
Operating				
Daily average production				
Natural gas *(MMcf/d)*	16.3	16.9	33.3	36.6
Oil *(bbl/d)*	1,193	573	1,320	1,275
NGL *(bbl/d)*	273	268	606	606
Total *(boe/d)*	4,188	3,662	7,479	7,991
Average prices				
Realized natural gas price *($/Mcf)*(2)	0.06	0.28	1.16	2.00
Realized oil price *($/bbl)*(2)	55.71	67.56	32.60	43.85
Realized NGL price *($/bbl)*(2)	28.09	17.35	36.48	43.93

(1) See "Non-GAAP measures" in this MD&A.
(2) Realized natural gas, oil, and NGL prices include physical forward sales contracts for which delivery was made during the reporting period, along with realized gains and losses on financial derivatives and foreign exchange contracts.

The Company's oil and natural gas revenue, net income (loss), cash flow from (used in) operating activities and adjusted funds flow are influenced by commodity prices and production levels. Conventional natural gas production levels decreased 2020 due to natural declines and reduced capital expenditures in response to depressed AECO natural gas prices. The disposition of a 50% working interest in the East Edson property which closed on April 1, 2020 for net cash consideration of $34.8 million and an eight well carried capital commitment, further reduced conventional natural gas production in the second and third quarters of 2020, before being restored in the fourth quarter of 2020 and of 2021 as eight (3.5 net) carried interest wells have been tied-in to production. Oil-focused capital expenditures increased beginning in the second quarter of 2019, as improved oil prices and differentials supported investment. In response to the significant decline in global oil prices which began in March 2020, oil-focused capital expenditures and high-cost production was temporarily suspended, pending a recovery of oil prices, and oil focused hedging gains were locked-in. Heavy crude oil production was restarted progressively in step with the recovery of oil prices.

The Company's net income in the third quarter of 2021 was impacted by a gain on disposition of the Clearwater Assets of $47.9 million. The Company's net income in the second quarter of 2021 was impacted by impairment reversals of $30.1 million. The Company's net loss in 2020 was impacted by net impairment charges of $42.5 million (Q4 2020 – $18.0 million impairment reversal; Q1 2020 – $60.5 million impairment charge), and $47.1 million in the prior year.

Commodity price risk management and sales obligations

Perpetual's commodity price risk management strategy is focused on managing downside risk and increasing certainty in adjusted funds flow by mitigating the effect of commodity price volatility. Physical forward sales contracts and financial derivatives are used to increase certainty in adjusted funds flow, manage the balance sheet, lock in economics on capital programs, and to take advantage of perceived anomalies in commodity markets. Perpetual also utilizes foreign exchange derivatives and physical or financial derivatives related to the differential between natural gas prices at the AECO and NYMEX trading hubs and oil basis differentials between WTI and WCS in order to mitigate the effects of fluctuations in foreign exchange rates and basis differentials on the Corporation's realized revenue. Diversification of markets is a further risk management strategy employed by the Company.

As at November 11, 2021, the Company entered into the following swap commodity contracts:

Commodity	Volumes sold	Term	Reference/ Index	Contract Traded Bought/sold	Average Price *(CAD$/bbl)*
Crude Oil	150 bbls/d	Oct 1 – Dec 31, 2021	WTI (CAD$/bbl)	Swap - sold	$92.65
Crude Oil	100 bbls/d	Nov 1 – Dec 31, 2021	WTI (CAD$/bbl)	Swap - sold	$100.50
Crude Oil	200 bbls/d	Jan 1 – June 30, 2022	WCS FP (CAD$/bbl)	Swap - sold	$76.70
Crude Oil	100 bbls/d	July 1 – Dec 31, 2022	WCS FP (CAD$/bbl)	Swap - sold	$72.00

As a November 11, 2021, the Company entered into the following swap WTI-WCS basis differential which settle in US$:

Commodity	Volumes sold	Term	Reference/ Index	Average Price *(US$/bbl)*	Market Price *(US$/bbl)*
Crude Oil	310 bbls/d	Oct 1 – Dec 31, 2021	WCS Differential (USD$/bbl)	$(13.25)	$(15.85)

As a November 11, 2021, the Company entered into the following physical fixed price natural gas sales arrangements at AECO:

Commodity	Volumes sold	Term	Reference/ Index	Contract Traded Bought/sold	Average Price *(US$/bbl)*
Natural gas	10,000 GJ/d	Oct 2021	AECO	Bought	$3.75
Natural gas	15,000 GJ/d	Oct 2021	AECO	Sold	$3.76
Natural gas	7,500 GJ/d	Nov 2021	AECO	Bought	$5.19

In the third quarter of 2021, the Company eliminated its fixed volume obligations of 25,400 MMBtu/d for the period commencing April 1, 2022 and ending on October 31, 2022 in consideration for the payment of $1.8 million over the term of the associated contract volumes. In the second quarter of 2021, the Company eliminated its 25,400 MMBtu/d market diversification contract obligations 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. In the first quarter of 2021, the Company eliminated its remaining 10,000 MMBtu/d market diversification contract obligations for the period of April 1, 2021 to October 31, 2021, in consideration for the payment of $1.4 million over the term of the associated contract volumes. These modifications have been recognized as realized losses on derivatives in the condensed interim consolidated statements of loss and comprehensive loss.

Conventional natural gas volumes sold pursuant to the Company's market diversification contract are sold at fixed volume obligations and priced at daily index prices at each of the market price points, less transportation costs from AECO to each market price point as detailed below.

Market/Pricing Point	November 1, 2022 to October 31, 2024 Daily sales volume *(MMBtu/d)*
Chicago	–
Malin	15,000
Dawn	15,000
Michcon	–
Emerson	10,000
Total sales volume obligation	**40,000**

OFF BALANCE SHEET ARRANGEMENTS

Perpetual has no off balance sheet arrangements.

FUTURE ACCOUNTING PRONOUNCEMENTS

The International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee regularly issue new and revised accounting pronouncements which have future effective dates and therefore are not reflected in Perpetual's financial statements. Once adopted, these new and amended pronouncements may have an impact on Perpetual's condensed interim consolidated financial statements. Perpetual's analysis of recent accounting pronouncements is included in the notes to the consolidated financial statements at December 31, 2020.

CORPORATE GOVERNANCE

The Corporation is committed to maintaining high standards of corporate governance. Each regulatory body, including the Toronto Stock Exchange and the Canadian provincial securities commissions, has a different set of rules pertaining to corporate governance. The Corporation fully conforms to the rules of the governing bodies under which it operates.

INTERNAL CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

There were no changes in the Corporation's internal control over financial reporting during the period beginning on July 1, 2021 and ended September 30, 2021 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

FORWARD-LOOKING INFORMATION AND STATEMENTS

Certain information and statements contained in this MD&A including management's assessment of future plans and operations, and including the information contained under the headings "Future Operations", "2021 Outlook" and "2021 Outlook - Exploration and Development Forecast Capital Expenditures" may constitute forward-looking information and statements within the meaning of applicable securities laws. This information and these statements relate to future events or to future performance. All statements other than statements of historical fact may be forward-looking information and statements. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe", "outlook", "guidance", "objective", "plans", "intends", "targeting", "could", "potential", "strategy" and any similar expressions are intended to identify forward-looking information and statements.

In particular, but without limiting the foregoing, this MD&A contains forward-looking information and statements pertaining to the following: the potential outcome of the Sequoia Litigation; the anticipated benefits to be derived from the Rubellite Transactions; the timing and amount of future production; future prices as well as supply and demand for conventional natural gas, NGL and heavy crude oil; the existence, operations and strategy of the commodity price risk management program; the approximate amount of forward sales and financial contracts to be employed, and the value of financial forward natural gas, oil and other risk management contracts; net income (loss) and adjusted funds flow sensitivities to commodity price, production, foreign exchange and interest rate changes; production and operating, general and administrative ("G&A"), and other expenses; the costs and timing of future abandonment and reclamation, asset retirement and environmental obligations; the use of exploration and development activity, prudent asset management, and acquisitions to sustain, replace or add to reserves and production or expand the Corporation's asset base; the Corporation's acquisition and disposition strategy and the existence of acquisition and disposition opportunities, the criteria to be considered in connection therewith and the benefits to be derived therefrom; Perpetual's ability to benefit from the combination of growth opportunities and the ability to grow through the capital expenditure program; expected compliance with the Credit Facility and Term Loan covenants; adjusted funds flow; ability to fund exploration and development; the corporate strategy and future operations; expectations regarding Perpetual's access to capital to fund its acquisition, exploration and development activities; the effect of future accounting pronouncements and their impact on the Corporation's financial results; future income tax and its effect on adjusted funds flow; intentions with respect to preservation of tax pools and taxes payable by the Corporation; funding of and anticipated results from capital expenditure programs; renewal of and borrowing costs associated with the Credit Facility; future debt levels, financial capacity, liquidity and capital resources; future contractual commitments; drilling, completion, facilities, construction and waterflood plans, and the effect thereof; the impact of Canadian federal and provincial governmental regulation on the Corporation relative to other issuers; Crown royalty rates; Perpetual's treatment under governmental regulatory regimes; business strategies and plans of management including future changes in the structure of business operations and debt reduction initiatives; and the reliance on third parties in the industry to develop and expand Perpetual's assets and operations.

Various assumptions were used in drawing the conclusions or making the forecasts and projections in the forward-looking information contained in this MD&A, which assumptions are based on management's analysis of historical trends, experience, current conditions and expected future developments pertaining to Perpetual and Rubellite and the industry in which they operate, the completion of the Rubellite Transactions and the receipt of all required approvals in connection therewith, as well as certain assumptions regarding the matters outlined above. Forward-looking information is based on current expectations, estimates and projections that involve a number of known and unknown risks, including, without limitation, the ability to continue to operate on a going concern basis if the Rubellite Transactions are not completed in a timely manner or at all, the impact of COVID-19 as further described below, which could cause actual results to vary and in some instances to differ materially from those anticipated by Perpetual and described in the forward-looking information contained in this MD&A. Perpetual cannot accurately predict the impact COVID-19 will have on its ability to execute its business plans and to obtain financing in response to government public health efforts to contain COVID-19, or third parties' ability to meet their contractual obligations with Perpetual including due to uncertainties relating to the geographic spread of the virus, the length of travel and quarantine restrictions imposed by governments of affected jurisdictions; and the current and future demand for oil and gas. In the event that the prevalence of COVID-19 increases (or fears in respect of COVID-19 increase), governments may increase regulations and restrictions regarding the flow of labour or products, travel bans, and Perpetual's operations, service providers and customers, and ability to advance its business plan or carry out its top strategic priorities, could be adversely affected. In particular, should any employees, consultants or other service providers of Perpetual become infected with COVID-19 or similar pathogens, it could have a material negative impact on Perpetual's operations, prospects, business, financial condition and results of operations. Undue reliance should not be placed on forward-looking information, which is not a guarantee of performance and is subject to a number of risks or uncertainties, including without limitation those described herein and under "Risk Factors" in Perpetual's Annual Information Form and MD&A for the year ended December 31, 2020 and in other reports on file with Canadian securities regulatory authorities which may be accessed through the SEDAR website (www.sedar.com) and at Perpetual's website (www.perpetualenergyinc.com).

The forward-looking information and statements contained in this MD&A reflect several material factors, expectations and assumptions of the Company and Rubellite including, without limitation, that each of Perpetual and Rubellite will conduct its operations in a manner consistent with its expectations and, where applicable, consistent with past practice; the general continuance of current or, where applicable, assumed industry conditions; the ability of Perpetual to obtain equipment, services, and supplies in a timely manner to carry out its activities; the accuracy of the estimates of Perpetual's reserve and resource volumes; certain commodity price and other cost assumptions; the continued availability of adequate debt and/or equity financing and adjusted funds flow to fund the Company's capital and operating requirements as needed; and the extent of Perpetual's liabilities.

The Corporation believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable, but no assurance can be given that these factors, expectations and assumptions will prove to be correct. The forward-looking information and statements included in this MD&A are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation: the ability to continue to operate on a going concern basis if the Rubellite Transactions are not completed in a timely manner or at all; volatility in market prices for oil and natural gas products; supply and demand regarding Perpetual's products; risks inherent in Perpetual's operations, such as production declines, unexpected results, geological, technical, or drilling and process problems; unanticipated operating events that can reduce production or cause production to be shut-in or delayed; changes in exploration or development plans by Perpetual or by third party operators of Perpetual's properties; reliance on industry partners; uncertainties or inaccuracies associated with estimating reserves volumes; competition for, among other things; capital, acquisitions of reserves, undeveloped lands, skilled personnel, equipment for drilling, completions, facilities and pipeline construction and maintenance; increased costs; incorrect assessments of the value of acquisitions; increased debt levels or debt service requirements; industry conditions including fluctuations in the price of natural gas and related commodities; royalties payable in respect of Perpetual's production; governmental regulation of the oil and gas industry, including environmental regulation; fluctuation in foreign exchange or interest rates; the need to obtain required approvals from regulatory authorities; changes in laws applicable to the Corporation, royalty rates, or other regulatory matters; general economic conditions in Canada, the United States and globally; stock market volatility and market valuations; limited, unfavorable, or a lack of access to capital markets, and certain other risks detailed from time to time in Perpetual's public disclosure documents. In addition, defence costs of legal claims can be substantial, even with respect to claims that have no merit and due to the inherent uncertainty of the litigation process, the resolution of the legal proceedings to which the Company has become subject could have a material effect on the Company's financial position and results of operations.

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