



NEWS RELEASE

Perpetual Energy Inc. Announces the Ratio for the Odd Lot Consolidation and Inconsequential Amendments to Plan of Arrangement

Calgary, Alberta – August 27, 2021 (TSX:PMT) – Perpetual Energy Inc. ("Perpetual" or the "Company") is pleased to announce that, in connection with its previously announced proposed plan of arrangement (the "Plan of Arrangement") under the *Business Corporations Act (Alberta)* (the "ABCA") involving Perpetual, the shareholders of Perpetual and Rubellite Energy Inc. ("Rubellite"), the Company (i) has set the consolidation ratio at 1,000 to 1 (the "Ratio") for its common shares (the "Common Shares"), and (ii) has made inconsequential amendments to the Plan of Arrangement to correct a minor typographical error and to include the reduction of Perpetual's stated capital to \$0.01 per Common Share as an additional step in the Plan of Arrangement.

The Special Meeting of Perpetual's shareholders to consider the Plan of Arrangement and other related matters is scheduled to be held virtually via live webcast that shareholders may attend via telephone at 9:00 a.m. (Calgary time) on August 31, 2021 (the "Meeting"). Perpetual shareholders are encouraged to review the management information circular (the "Information Circular") with respect to the Plan of Arrangement on SEDAR at www.sedar.com as it contains important deadlines and information, including information with respect to the exercise of warrants to be received by Perpetual shareholders in connection with the Plan of Arrangement and for Perpetual shareholders to participate in the equity financings and with respect to the registered shareholders' right to dissent with respect to the Plan of Arrangement and, if the Plan of Arrangement becomes effective, to be paid the fair value of their Common Shares in accordance with the provisions of ABCA and the Interim Order. An amending agreement incorporating the amendments to the Plan of Arrangement will also be made available for review on SEDAR at www.sedar.com. The Plan of Arrangement is subject to final Court approval.

Odd Lot Consolidation

Pursuant to steps in the Plan of Arrangement, Perpetual will consolidate the Common Shares (the "Consolidation") on the basis of the Ratio and will then split (the "Split") the Common Shares at the same Ratio (the Consolidation and the Split are together, the "Share Capital Amendments").

Shareholders who own a number of Common Shares less than the Ratio (the "Consolidated Shareholders") will be paid an amount in cash per Common Share equal to the volume weighted average trading price ("VWAP") of the Common Shares on the Toronto Stock Exchange ("TSX") for the 20-day period prior to the effective date of the Plan of Arrangement (the "Consolidation Consideration"). It is a condition of the lenders of Perpetual that payments made pursuant to the Consolidation and in respect of dissenting shareholders not exceed \$750,000 in the aggregate. Based on the Ratio it is anticipated that only approximately 650,000 Common Shares in aggregate will be cancelled as a result of the Consolidation and Perpetual would pay an aggregate of approximately \$235,000 to the Consolidated Shareholders. The Consolidated Shareholders own on average 113 Common Shares and based on current trading prices will receive approximately \$40 in Consolidation Consideration in connection with the Consolidation.

Perpetual values its shareholders and is aware of the challenges that shareholders experience when trying to sell small holdings of Common Shares. A minimum brokerage commission for selling a small number of Common Shares would constitute a significant percentage of the total proceeds from the sale of the Common Shares and in many cases would make it economically punitive to sell their small holdings. The Consolidation helps to address this problem by giving shareholders liquidity, enabling them to dispose of their Common Shares without incurring brokerage fees. In addition, the Consolidation was designed to provide the Consolidated Shareholders with the benefit of realizing the substantial

increase in the market price of the Common Shares following the announcement of the Plan of Arrangement thereby having the effect of increasing the Consolidation Consideration. The closing price of Perpetual's shares on August 26, 2021 was 17% higher than the 20-day VWAP immediately prior to the announcement of the Plan of Arrangement and related other transactions on July 16, 2021. This compares favorably to the change for a peer group of junior oil and gas producers for which there was a 12% decrease relative to their VWAP for the same period, representing 29% relative outperformance versus Perpetual's peers.

Perpetual included the Share Capital Amendments as part of the Plan of Arrangement to provide liquidity for shareholders with small positions and to reduce administrative costs of Perpetual. A significant number of shareholders hold small and odd-lot holdings of Common Shares. The Share Capital Amendments allows such shareholders to liquidate their investment without payment of brokerage fees that in many cases would represent all or a substantial portion of their sale proceeds. Further, as a reporting issuer, Perpetual is required to print and disseminate to registered shareholders and beneficial shareholders annual and interim financial statements and other continuous disclosure materials, which printing and dissemination costs represent a significant expense for Perpetual. The effect of the proposed Share Capital Amendments will be to reduce administrative costs associated with maintaining a large base of odd-lot and small shareholders by significantly reducing the number of these shareholders.

Completion of the Consolidation as part of the Plan of Arrangement remains subject to the approval of the Company's shareholders at the Meeting and the Company will issue a further news release announcing the Consolidation Consideration and the Plan of Arrangement and Consolidation taking effect. Following completion of the Share Capital Amendments, the Company will have approximately 64.0 million Common Shares outstanding. Letters of transmittal with respect to the Share Capital Amendments and the Plan of Arrangement were mailed out to all registered shareholders. All registered shareholders of Perpetual will be required to send their certificates representing pre-consolidation Common Shares with a properly executed letter of transmittal to Perpetual's transfer agent, Odyssey Trust Company, in accordance with the instructions provided in the letter of transmittal. Shareholders who hold their Common Shares through a broker or other intermediary and do not have Common Shares registered in their own name will not be required to complete a letter of transmittal.

Following the Consolidation, any shareholder holding less than one Common Share (whether a registered shareholder or a beneficial shareholder) will cease to have any rights as a shareholder other than the right to be paid the Consolidation Consideration and will not participate in the Split or receive Rubellite Common Shares or Rubellite Warrants under the Plan of Arrangement. Any such holder who has not surrendered the certificate(s) or Direct Registration System Advice(s) representing such Common Shares in accordance with the letter of transmittal on or prior to the third anniversary date of the effective date of the Plan of Arrangement will cease to have any claim or interest of any kind or nature against Perpetual or Rubellite for the Consolidation Consideration or otherwise.

Consolidated Shareholders may wish to obtain advice from their broker or financial advisor as to the effect of the Consolidation on them. The tax consequences for each Consolidated Shareholder may vary. Neither Perpetual nor Rubellite makes any representations with respect to the tax consequences for a particular Consolidated Shareholder. It is recommended that each Consolidated Shareholder consult their personal tax advisor as to the consequences to them of the Consolidation.

The Share Capital Amendments are further described in the Information Circular. Perpetual shareholders are encouraged to carefully review the Information Circular as it contains important information pertaining to the Consolidation.

Amendments to the Plan of Arrangement

Perpetual has made certain inconsequential amendments to the Plan of Arrangement to correct a typographical error and to provide for the reduction of Perpetual's stated capital to \$0.01 per share by adding an additional step to the Plan of Arrangement. At the Meeting, shareholders will be asked to consider and, if deemed advisable, to approve by way of special resolution, the Plan of Arrangement and if approved it will also result in the approval by way of special resolution of the reduction of the stated capital account maintained in respect of Perpetual's Common Shares to \$0.01 per share. The stated capital reduction will be effective at the same time the Plan of Arrangement becomes effective.

Perpetual believes that the reduction of the stated capital account will benefit the Company on a go-forward basis by providing more flexibility in managing its capital structure, including its ability to pay dividends and repurchase Common Shares. Due to Perpetual's long history dating back to its inception as an income trust in 2002 and its business plan which included extensive distributions to its unitholders and dividends to its shareholders, the Company's stated capital account maintained in respect of the Common Shares no longer reflects the Company's current circumstances.

The reduction of the stated capital account will have no impact on the day-to-day operations of the Company and will not, on its own, impact the financial condition of the Company. The reduction in the stated capital account will not result in a deemed dividend or in a reduction of the adjusted cost base of the Common Shares for shareholders of the Company. Furthermore, the reduction in the stated capital account of the Common Shares will not give rise to immediate tax consequences under the *Income Tax Act* for shareholders of the Company. Shareholders of the Company may wish to consult their own tax advisors with respect to the proposed stated capital account reduction.

The ABCA provides that a corporation shall not reduce its stated capital if there are reasonable grounds for believing that (i) the corporation is, or would after the reduction be, unable to pay its liabilities as they become due, or (ii) the realizable value of the corporation's assets would thereby be less than the aggregate of its liabilities. We do not have reasonable grounds to believe that (i) we are, or would after the proposed stated capital reduction be, unable to pay our liabilities as they become due, or (ii) the realizable value of our assets would, as a result of the proposed stated capital reduction, be less than the aggregate of our liabilities.

Other Matters Relating to the Plan of Arrangement

Based on preliminary proxy voting results received by the Company to date, it is apparent that the special resolution to approve the Plan of Arrangement is supported by shareholders. Thus far, no notices of dissent have been received and no Perpetual shareholder, security holder or creditor has served notice of intention to appear.

Notices of intention to appear have been received from PricewaterhouseCoopers Inc., ("PwC") LIT, in its capacity as the Trustee in bankruptcy of Sequoia Resources Corp. ("Sequoia") and the Orphan Well Association ("OWA") and briefs have been filed indicating that the parties oppose the application for approval of the Plan of Arrangement.

In August 2018, PwC filed a Statement of Claim against Perpetual and its President and Chief Executive Officer ("CEO") (the "Sequoia Litigation") with respect to the Company's disposition of shallow conventional natural gas assets in Eastern Alberta (the "Goodyear Assets") to an unrelated third party on October 1, 2016 (the "Sequoia Disposition"). The OWA was permitted to intervene in certain proceedings related to summary dismissal applications filed by Perpetual. PwC's and the OWA's purported interest in opposing the Plan of Arrangement is based solely on this lawsuit.

PwC's Statement of Claim originally sought to return the Goodyear Assets to Perpetual Operating Trust or, in the alternative, \$217 million in damages; however, the claims have been substantially narrowed through decisions of the Court of Queen's Bench (the "Court") and Alberta Court of Appeal (the "Court of Appeal"). The Bankruptcy and Insolvency Act ("BIA") claim has been summarily dismissed. PwC has appealed that decision and the appeal will not be heard until February 2022. All that remains outstanding is an oppression claim for the amount of \$1.56 million brought by PwC on behalf of three municipalities who were owed money at the time of the Sequoia Disposition, voluntarily entered into payment plans with Sequoia and remained unpaid at the date of Sequoia's bankruptcy in March 2018.

While 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, the Special Committee of the Board of Directors in their deliberations considered the possibility of an adverse second appeal decision reinstating the BIA claim and future adverse decisions regarding the BIA or oppression claim at trial. The Special Committee of the Board of Directors, in their determination that the Plan of Arrangement and the other transactions are in the best interest of Perpetual and its stakeholders including its shareholders, secured and unsecured debtholders, creditors, claimants and other stakeholders including the regulatory obligations pertaining to its abandonment and reclamation obligations, considered the impact of the Plan of Arrangement and other transactions on the Sequoia estate, and others potentially impacted by the outcome of the Sequoia Litigation including the environment, and made the determination that Perpetual would be better positioned with the Plan of Arrangement to manage either a monetary judgment or a return of some or all of the Goodyear Assets for which future asset retirement obligations may need to be addressed.

Upon completion of the Plan of Arrangement and the other transactions, Perpetual will be in a materially stronger financial position going forward with a 45% reduction in net debt and \$6 to \$7 million increase in adjusted funds flow related to both lower cash interest and general and administrative costs. With improved liquidity, Perpetual will be positioned to fund value-adding opportunities to grow production and adjusted funds flow to realize the inherent value potential of its assets, continue to manage its current and any future decommissioning obligations and to pursue other new ventures. Perpetual will also have exposure to the Clearwater Assets through its 4 million Rubellite Share Purchase Options. In any scenario, if the Plan of Arrangement is approved and the Sequoia claim is eventually successful, Perpetual believes PwC's recovery potential is materially improved and the risk of satisfying future decommissioning obligations for the Goodyear Assets is materially reduced.

"We are pleased that the preliminary shareholder results are tremendously supportive of the Plan of Arrangement. While many elements of the Sequoia Litigation have been determined in Perpetual's favor, significant effort to ensure due consideration was given to the parties potentially impacted by the Sequoia Litigation to the extent PwC is successful in its claims." said Sue Riddell Rose, Perpetual's CEO. "We are perplexed by PwC's and the OWA's opposition to the Plan of Arrangement given the careful planning and attention to detail to ensure a positive outcome for all stakeholders and considering the reasonable expectations of all stakeholders."

Shareholder Questions and Assistance

Perpetual shareholders who have questions with respect to any of the foregoing matters or require assistance in voting for the Plan of Arrangement can contact our shareholder advisor and proxy solicitation agent, Kingsdale Advisors, by telephone toll-free at 1-877-659-1819 (416-867-2272 for collect calls outside North America) or by email at contactus@kingsdaleadvisors.com.

No securities regulatory authority has either approved or disapproved of the contents of this news release. The securities being offered have not been, nor will they be, registered under the United States Securities Act of 1933, as amended, and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons absent registration or an applicable exemption from the registration requirements. This press release shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the securities in any State in which such offer, solicitation or sale would be unlawful.

ADDITIONAL INFORMATION

About Perpetual

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, including undeveloped bitumen leases in Northern Alberta and prospective undeveloped acreage in the emerging Clearwater play fairway through Rubellite. Additional information on Perpetual can be accessed at www.sedar.com or from the Company's website at www.perpetualenergyinc.com.

The Toronto Stock Exchange has neither approved nor disapproved the information contained herein.

For additional information please contact:

Perpetual Energy Inc.
Suite 3200, 605 - 5 Avenue SW Calgary, Alberta, Canada T2P 3H5
Telephone: 403 269-4400 Fax: 403 269-4444 Email: info@perpetualenergyinc.com

Susan L. Riddell Rose President and Chief Executive Officer
Ryan A. Shay Vice President Finance and Chief Financial Officer

Forward-Looking Information

Certain information in this news release may constitute forward-looking information or statements (together "forward-looking information") under applicable securities laws. The forward-looking information includes, without limitation, statements with respect to: the completion, and anticipated benefits of, the Plan of Arrangement and the other transactions to Perpetual's shareholders and other stakeholders, including the Share Capital Amendments; the expectation that shareholders will approve the Plan of Arrangement based on preliminary voting results; the anticipated success in defending the Sequoia Litigation; the statements contained under the heading "Other Matters Relating to the Plan of Arrangement"; the anticipated timing for the completion of the Plan of Arrangement; and expected timing of the special meeting of Perpetual Shareholders to be held to consider the Plan of Arrangement; and other similar statements.

Forward-looking information is based on current expectations, estimates and projections that involve a number of known and unknown risks, which could cause actual results to vary and in some instances to differ materially from those anticipated by Perpetual and described in the forward-looking information contained in this news release. In particular and without limitation of the foregoing, material factors or assumptions on which the forward-looking information in this news release is based include: the successful completion of each of the Plan of Arrangement and the other transactions, including obtaining necessary shareholder, Court and regulatory approvals, as applicable, and satisfying all other conditions to completion within expected timelines; completion of the Plan of Arrangement on the expected terms; anticipated benefits to Perpetual's shareholders; the ability of Perpetual to continue as a going concern in the event the Plan of Arrangement and the other transactions are not completed; the ability of Rubellite to

successfully operate the Clearwater assets; forecast commodity prices and other pricing assumptions; forecast production volumes based on business and market conditions; foreign exchange rates; near-term pricing and continued volatility of the market; Rubellite's and Perpetual's capacity and continued operations; estimates of quantities of crude oil from properties and other sources not currently classified as proved; accounting estimates and judgments; future use and development of technology and associated expected future results; the ability to obtain regulatory approvals; the successful and timely implementation of capital projects; ability to generate sufficient cash flow to meet current and future obligations; estimated abandonment and reclamation costs, including associated levies and regulations applicable thereto; Rubellite's ability to operate under the management of Perpetual pursuant to the management services agreement; the ability of Rubellite and Perpetual to obtain and retain qualified staff and equipment in a timely and cost-efficient manner, as applicable; the successful listing of the Rubellite Shares and Arrangement Warrants on the TSX; the retention of key properties; forecast inflation and other assumptions inherent in Perpetual's current guidance and estimates; the continuance of existing tax, royalty, and regulatory regimes; the accuracy of the estimates of reserves volumes; ability to access and implement technology necessary to efficiently and effectively operate assets; and the ongoing and future impact of the coronavirus on commodity prices and the global economy, among others.

Undue reliance should not be placed on forward-looking information, which is not a guarantee of performance and is subject to a number of risks or uncertainties, including without limitation those described herein and under "Risk Factors" in Perpetual's 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). In addition, defence costs of legal claims such as the Sequoia Litigation 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 Sequoia Litigation or the related opposition to the Plan of Arrangement 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.