



A Canadian junior oil and natural gas exploration and development company with a spectrum of opportunities focused on providing ever-cleaner energy and products for a better world.

Q1 | 2022



During the first quarter of 2022, progress was made to advance Perpetual's top five strategic priorities for 2022 which include:

1. Maximize Funds Flow and Value of Edson;
2. Maximize Funds Flow and Value of Mannville;
3. Re-ignite Active Exploration for Tight Oil and Gas;
4. Advance Technology-Driven Diversifying New Ventures; and
5. Further Strengthen the Balance Sheet and Manage Risk.

FIRST QUARTER 2022 HIGHLIGHTS

- Driven by positive results from the East Edson drilling program, Perpetual sequentially grew production to 6,804 boe/d in the first quarter of 2022 (16% oil and NGL), up 7% from 6,359 boe/d in the fourth quarter and 26% higher than the 5,211 boe/d recorded in the first quarter of 2021 (21% oil and NGL). Production levels increased as 9 (4.5 net) East Edson liquids-rich Wilrich gas wells were progressively brought on production during 2021, partially offset by the disposition of the Company's Clearwater assets to Rubellite Energy Inc. ("Rubellite") in the third quarter of 2021.
- Adjusted funds flow⁽¹⁾ of \$14.1 million (\$0.22/share) was 5.6 times higher than \$2.5 million recorded in the first quarter of 2021 and up 64% from \$8.6 million in the fourth quarter of 2021, reflecting higher production and higher realized prices for all products in combination with interest savings and lower general and administrative costs following completion of the transactions with Rubellite.
- Cash flows from operating activities of \$6.3 million was up \$4.6 million and \$4.7 million from the first quarter of 2021 and fourth quarter of 2021 respectively.
- Total operating netbacks⁽¹⁾ increased to \$28.80/boe from \$23.71/boe in the fourth quarter of 2021 (Q1 2021 \$8.65/boe), reflecting the strengthening of Western Canadian Select (WCS) benchmark oil prices, higher natural gas prices and the impact of growing production across a largely fixed operating cost base in East Edson.
- Net income for the first quarter of 2022 was \$7.2 million (\$0.11/share), a significant improvement from the prior year period (Q1 2021 – net loss of \$2.7 million; \$0.04/share). Net income in the first quarter of 2022 was positively impacted by a non-cash impairment reversal of \$7.4 million.
- Exploration and development capital spending⁽¹⁾ was \$4.8 million to drill two (2.0 net) multi-lateral horizontal wells targeting the Sparky formation at Mannville in Eastern Alberta. The first well in the program was rig released in mid-March and began producing sales volumes in early April after full recovery of oil-based load fluid used during the drilling operation. The second well was rig-released in early April and is recovering its water-based load fluid with early indications of reservoir oil.
- Total net debt⁽¹⁾ outstanding at March 31, 2022 dropped 55% to \$48.8 million, from \$107.4 million at March 31, 2021, as a result of the transactions with Rubellite in the third quarter of 2021 and adjusted funds flow in excess of capital expenditures and other obligations during the quarter.
- Perpetual had available liquidity⁽¹⁾ at March 31, 2022 of \$6.4 million, comprised of the \$17 million credit facility borrowing limit, less current borrowings and letters of credit of \$9.6 million and \$1.0 million, respectively.

⁽¹⁾ Non-GAAP measure, Non-GAAP ratio or supplementary financial measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this news release.

2022 OUTLOOK

Perpetual expects exploration and development capital expenditures⁽⁴⁾ of \$28 to \$30 million for full year 2022, at the high end of previous guidance released on March 15, 2022, to be fully funded from adjusted funds flow⁽⁴⁾.

The table below summarizes anticipated exploration and development expenditures and drilling activities for Perpetual for the remainder of 2022.

2022 Exploration and Development Forecast Capital Expenditures⁽⁴⁾

	Q1 2022 (\$ millions)	# of wells (gross/net)	Q2 – Q4 2022 (\$ millions)	# of wells (gross/net)	2022 (\$ millions)	# of wells (gross/net)
West Central ⁽¹⁾	\$0.1	–	\$15 - \$16	7 / 3.5	\$15 - \$16	7 / 3.5
Eastern Alberta ⁽²⁾	\$4.8	1 / 1.0	\$8 - \$9	5 / 5.0	\$13 - \$14	6 / 6.0
Total⁽³⁾	\$4.9	1 / 1.0	\$23 - \$25	12 / 8.5	\$28 - \$30	13 / 9.5

⁽¹⁾ Includes six (3.0 net) Wilrich development wells and one (0.5 net) secondary zone evaluation well.

⁽²⁾ One of the two (2.0 net) multi-lateral wells drilled in the first quarter of 2022 was rig released in early April 2022. Both wells will be monitored for performance prior to drilling up to four (4.0 net) follow-up wells in the second half of 2022.

⁽³⁾ Excludes abandonment and reclamation spending and acquisitions or land expenditures, if any.

⁽⁴⁾ Non-GAAP measure, Non-GAAP ratio or supplementary financial measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this news release.

At Mannville in Eastern Alberta, preliminary performance of the recent two (2.0 net) well multi-lateral horizontal drilling program targeting heavy oil in the Sparky formation is promising. One (1.0 net) well rig released in mid-March has fully recovered its oil-based load fluid and is stabilizing at an oil production rate above expectations. No sales production was recorded in the first quarter for this well, as full recovery of the oil-based drilling mud ("OBM") used during the drilling process occurred on April 1. Recovered OBM is not recorded as sales production but is instead credited back to drilling capital and reused in future drilling operations to the extent possible. This first well in the drilling program recently completed its IP30 production period, averaging 247 bbl/d of conventional heavy oil production during the month of April. The second well, which was rig-released in early April, was drilled with a KCL-amine mud system and is still recovering its water-based load fluid with early indications of reservoir oil. Perpetual will continue to monitor performance of the new Sparky multi-laterals through the second quarter prior to executing the follow-up drilling program; however, given the promising early performance of the multi-lateral drilling program at Mannville, Perpetual has made preparations to drill up to four (4.0 net) additional multi-lateral horizontal Sparky locations in the second half of 2022. Perpetual will also continue to be focused on waterflood optimization and battery consolidation projects as well as shallow gas recompletions and abandonment and reclamation activities in the Mannville property.

Following spring break-up, once field conditions allow, Perpetual will participate at its 50% working interest in an East Edson drilling program to drill, complete, equip and tie-in six (3.0 net) extended reach horizontal wells in the Wilrich formation as well as one (0.5 net) additional horizontal well targeting the Notikewin formation to begin evaluating the potential of secondary zones at East Edson. The seven (3.5 net) well drilling program is expected to fill the West Wolf gas plant to maximize natural gas and NGL sales through next winter.

Total Company average production for the first quarter of 2022 of 6,804 boe/d (16% oil and NGL) exceeded expectations due to the strong performance of the 2021 East Edson drilling program. Production is forecast to decline from first quarter levels through the second quarter of 2022 to an average of 5,900 to 6,200 boe/d, with oil and NGL expected to represent close to 22% of production as the two new multi-lateral heavy oil wells at Mannville begin to contribute to sales volumes. Average production volumes are forecast to grow to achieve 7,000 boe/d during the second half of 2022 as seven (3.5 net) new wells are drilled and come onstream at East Edson and assuming the four (4.0 net) well follow-up drilling program at Mannville is executed later in the third quarter. Full year average production is forecast to grow approximately 25% from 2021 levels to the high end of previous March 15, 2022 guidance of 6,500 to 6,750 boe/d in 2022, with oil and NGL representing approximately 20% of the production mix.

2022 Guidance assumptions are as follows:

	2022 Guidance
Exploration and development expenditures ⁽²⁾ (\$ millions)	\$28 - \$30
Cash costs ⁽¹⁾⁽²⁾ (\$/boe)	\$17.00 - \$20.00
Average daily production (boe/d)	6,500 - 6,750
Production mix (%)	20% oil and NGL

⁽¹⁾ Cash costs represents operating, transportation, interest, G&A and royalties.

⁽²⁾ Non-GAAP measure, Non-GAAP ratio or supplementary financial measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this news release.

Perpetual continues its environmental, social, and corporate governance ("ESG") focus, with total abandonment and reclamation expenditures of up to \$2.0 million planned in 2022, with an estimated \$0.6 million to be funded through Alberta's Site Rehabilitation Program ("SRP"). The remaining \$1.4 million will more than satisfy the Company's annual area-based closure spending requirements of \$0.9 million.

Perpetual would also like to extend its sincerest gratitude to Mr. Robert Maitland for his fourteen years of service as a member of Perpetual's Board of Directors, including in the role of Chair of the Audit Committee. Rob's steadfast commitment to financial stewardship and to strategically navigating the multiple oil and natural gas price cycles experienced through his tenure is deeply appreciated.



Susan Riddell Rose
President and Chief Executive Officer

May 9, 2022

FINANCIAL AND OPERATING HIGHLIGHTS

(\$Cdn thousands except volume and per share amounts)	Three months ended March 31,		
	2022	2021	Change
Financial			
Oil and natural gas revenue	24,953	11,536	116%
Net income (loss)	7,162	(2,706)	365%
Per share – basic ⁽²⁾	0.11	(0.04)	(375)%
Per share – diluted ⁽²⁾	0.10	(0.04)	(350)%
Cash flow from operating activities	6,272	1,682	(276)%
Adjusted funds flow ⁽¹⁾	14,117	2,544	455%
Per share – basic ⁽¹⁾⁽²⁾	0.22	0.04	(450)%
Total assets	187,621	135,220	39%
Revolving bank debt	9,553	17,224	(45)%
Term loan, principal amount	2,671	47,771	(94)%
Other liability (undiscounted)	3,404	–	100%
Senior Notes, principal amount	36,583	35,637	3%
Adjusted working capital (surplus) deficiency ⁽¹⁾	(3,413)	6,738	(150)%
Net debt ⁽¹⁾	48,798	107,370	(55)%
Capital expenditures			
Exploration and development	4,837	3	–
Net payments on acquisitions and dispositions	–	469	–
Net capital expenditures	4,837	472	925%
Common shares outstanding (thousands) ⁽³⁾			
End of period	63,131	62,530	1%
Weighted average - basic	63,216	61,603	3%
Weighted average - diluted	74,348	61,603	21%
Operating			
Daily average production			
Conventional natural gas (MMcf/d)	34.3	22.9	50%
Heavy crude oil (bbl/d)	682	1,097	(38)%
NGL (bbl/d)	400	294	36%
Total (boe/d) ⁽⁴⁾	6,804	5,211	31%
Average realized prices			
Realized natural gas price (\$/Mcf) ⁽¹⁾	5.16	2.92	77%
Realized oil price (\$/bbl) ⁽¹⁾	95.55	40.84	134%
Realized NGL price (\$/bbl) ⁽¹⁾	87.86	56.01	57%
Wells drilled – gross (net)			
Conventional natural gas	(–)	2 (1.0)	
Heavy crude oil	1 (1.0)	(–)	
Total ⁽⁵⁾	1 (1.0)	2 (1.0)	(50)%

⁽¹⁾ Non-GAAP measure, Non-GAAP ratio or supplementary financial measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this first quarter 2022 interim report.

⁽²⁾ Based on weighted average basic common shares outstanding for the period.

⁽³⁾ Shares outstanding are net of shares held in trust (Q1 2022 – 0.9 million; Q1 2021 – 0.6 million).

⁽⁴⁾ Please refer to "Advisories - Volume conversions".

⁽⁵⁾ One of the two (2.0 net) multi-lateral wells drilled in the first quarter of 2022 was rig released in early April 2022.

ADVISORIES

This letter to shareholders and first quarter 2022 interim report refer to certain non-GAAP measures and metrics commonly used in the oil and natural gas industry and provides forward-looking information and statements. Further detailed information regarding these measures is provided in this report in "Management's Discussion and Analysis – NON-GAAP MEASURES" on pages 17 to 19 and "Management's Discussion and Analysis – FORWARD-LOOKING INFORMATION AND STATEMENTS" on pages 19 and 20.

In addition to the disclosure set out in the Company's Management's Discussion and Analysis for the period ended March 31, 2022, we provide certain supplementary disclosure throughout this report in respect of certain specified financial measures (as such term is defined in National Instrument 51-112 – *Non-GAAP and Other Financial Measures*) and in respect of certain oil and gas metrics.

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 months ended March 31, 2022 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 months ended March 31, 2022 as well as the audited consolidated financial statements and accompanying notes for the years ended December 31, 2021 and 2020. Disclosure which is unchanged from the December 31, 2021 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 May 4, 2022.

This MD&A contains certain specified financial measures that are not recognized by GAAP and used by management to evaluate the performance of the Corporation and its business. Since certain specified financial measures may not have a standardized meaning, securities regulations require that specified financial measures are clearly defined, qualified and, where required, reconciled with their nearest GAAP measure. See "Non-GAAP and Other Financial Measures" for further information on the definition, calculation and reconciliation of these measures. This MD&A also contains forward-looking information. See "Forward-Looking Information". Readers are also referred to the other advisory sections at the end of this MD&A for additional information.

NATURE OF BUSINESS: Perpetual is an oil and natural gas exploration, production and marketing company headquartered in Calgary, Alberta. Additional information on Perpetual, including the most recently filed Annual Information Form ("AIF"), can be accessed at www.sedar.com or from the Corporation's website at www.perpetualenergyinc.com.

Q1 2022 OPERATIONAL AND FINANCIAL HIGHLIGHTS

- Quarter over quarter production growth of 7% was achieved, with average production of 6,804 boe/d, up 31% from the comparative period of 2021 (Q1 2021 – 5,211 boe/d; Q4 2021 – 6,359 boe/d). Throughout 2021, and into the first quarter of 2022, production increases at East Edson were due to a successful drilling program as nine (4.5 net) wells were drilled and placed onstream during 2021, including four (2.0 net) wells in the fourth quarter.
- Oil and natural gas revenue for the first quarter of 2022 was \$25.0 million, more than 2.0 times higher than revenue in the comparative period of 2021 due to significantly higher reference prices for all products and the 31% increase in production.
- Adjusted funds flow (see "Non-GAAP and Other Financial Measures") in the first quarter of 2022 was \$14.1 million (\$0.22/share), up \$11.6 million from the prior year period of \$2.5 million (\$0.04/share), due primarily to the \$3.2 million increase in cash flows from operating activities. Adjusted funds flow on a unit-of-production basis was \$22.99/boe in the first quarter of 2022, an increase from the prior year period of \$5.42/boe due to the significant increase in commodity prices.
- Net cash flows from operating activities in the first quarter of 2022 were \$6.2 million, up \$4.5 million from the prior year period (Q1 2021 – \$1.7 million). The increase was due to significantly higher realized prices for all products and the 31% increase in production, partially offset by higher cash costs due to cash interest payments.
- Net income for the first quarter of 2022 was \$7.2 million, a significant improvement from the prior year period (Q1 2021 – net loss of \$2.7 million). Net income in the first quarter of 2022 was positively impacted by non-cash impairment reversal of \$7.4 million.
- Approximately \$4.8 million was invested in exploration and development capital expenditures (see "Non-GAAP and Other Financial Measures"), excluding acquisition or disposition expenditures, during the first quarter of 2022. This was attributable to the drilling of 2.0 (2.0 net) multi-lateral horizontal wells at Mannville targeting conventional heavy oil in the Sparky formation, of which one well was on production at the end of the first quarter, with the second well rig released early in April 2022.
- Cash costs (see "Non-GAAP and Other Financial Measures") were \$17.52/boe in the first quarter of 2022, up 14% from the prior year period (Q1 2021 – \$15.41/boe) as the remaining higher cost heavy oil wells at Mannville were restored to production. On an absolute dollar basis, cash costs were \$10.7 million, up \$3.5 million (49%) from the prior year period. The increase was due to the impact of higher production, combined with increased cash finance expense which was \$1.1 million higher than the prior year period due primarily to the Term Loan and 2025 Senior Note interest that Perpetual paid in cash in 2022 relative to 2021 when Perpetual elected to pay the interest in-kind and add to the principal amount owing.
- As at March 31, 2022, net debt (see "Capital Management" section later in this MD&A) was \$48.8 million, down 18% from December 31, 2021 as adjusted funds flow exceeded capital expenditures during the quarter.
- Perpetual would also like to extend its sincerest gratitude to Mr. Robert Maitland for his fourteen years of service as a member of Perpetual's Board of Directors, including in the role of Chair of the Audit Committee. Rob's steadfast commitment to financial stewardship and to strategically navigating the multiple oil and natural gas price cycles experienced through his tenure is deeply appreciated.

2022 OUTLOOK

Perpetual expects exploration and development capital expenditures (see "Non-GAAP and Other Financial Measures") of \$28 - \$30 million for full year 2022, at the high end of previous guidance released on March 15, 2022, to be fully funded from adjusted funds flow (see "Non-GAAP and Other Financial Measures").

The table below summarizes forecasted exploration and development expenditures and drilling activities for Perpetual for the remainder of 2022:

	Q1 2022 (\$ millions)	# of wells (gross/net)	Q2 – Q4 2022 (\$ millions)	# of wells (gross/net)	2022 (\$ millions)	# of wells (gross/net)
West Central ⁽¹⁾	\$0.1	-	\$15 - \$16	7 / 3.5	\$15 - \$16	7 / 3.5
Eastern Alberta ⁽²⁾	\$4.8	1 / 1.0	\$ 8 - \$ 9	5 / 5.0	\$13 - \$14	6 / 6.0
Total⁽³⁾	\$4.9	1 / 1.0	\$23 - \$25	12 / 8.5	\$28 - \$30	13 / 9.5

⁽⁵⁾ Includes six (3.0 net) Wilrich development wells and one (0.5 net) secondary zone evaluation well.

⁽⁶⁾ One of the two (2.0 net) multi-lateral wells drilled in the first quarter of 2022 was rig released in early April 2022. Both wells will be monitored for performance prior to drilling up to four (4.0 net) follow-up wells in the second half of 2022.

⁽⁷⁾ Excludes abandonment and reclamation spending and acquisitions or land expenditures, if any.

At Mannville in Eastern Alberta, preliminary performance of the recent two-well, multi-lateral horizontal drilling program targeting heavy oil in the Sparky formation is promising. One (1.0 net) well rig released in mid-March has fully recovered its oil-based load fluid and is stabilizing at an oil production rate above expectations. No sales production was recorded in the first quarter for this well, as full recovery of the oil-based drilling mud ("OBM") used during the drilling process occurred on April 1. Recovered OBM is not recorded as sales production but is instead credited back to drilling capital and reused in future drilling operations to the extent possible. This first well in the drilling program recently completed its IP30 production period, averaging 247 bbl/d of conventional heavy oil production during the month of April. The second well, which was rig-released in early April, was drilled with a KCL-amine mud system and is still recovering its water-based load fluid with early indications of reservoir oil. Perpetual will continue to monitor performance of the new Sparky multi-laterals through the second quarter prior to executing the follow-up drilling program; however given the promising early performance of the multi-lateral horizontal drilling program at Mannville, Perpetual has made preparations to drill up to four (4.0 net) additional multi-lateral Sparky locations in the second half of 2022. Perpetual will also continue to be focused on waterflood optimization and battery consolidation projects as well as shallow gas recompletions and abandonment and reclamation activities in the Mannville property.

Following spring break-up, once field conditions allow, Perpetual will participate at its 50% working interest in an East Edson drilling program to drill, complete, equip and tie-in six (3.0 net) extended reach horizontal wells in the Wilrich formation as well as one (0.5 net) additional horizontal well targeting the Notikewin formation to begin evaluating the potential of secondary zones at East Edson. The seven (3.5 net) well drilling program is expected to fill the West Wolf gas plant to maximize natural gas and NGL sales through next winter.

Total Company average production for the first quarter of 2022 of 6,804 boe/d (16% oil and NGL) exceeded expectations due to the strong performance of the 2021 East Edson drilling program. Production is forecast to decline from first quarter levels through the second quarter of 2022 to an average of 5,900 to 6,200 boe/d, with oil and NGL expected to represent close to 22% of production as the two new multi-lateral heavy oil wells at Mannville begin to contribute to sales volumes. Average production volumes are forecast to grow to achieve 7,000 boe/d during the second half of 2022 as seven (3.5 net) new wells are drilled and come onstream at East Edson and assuming the four (4.0 net) well follow-up drilling program at Mannville is executed later in the third quarter. Full year average production is forecast to grow approximately 25% from 2021 levels to the high end of previous March 15, 2022 guidance of 6,500 to 6,750 boe/d, with oil and NGL representing approximately 20% of the production mix.

2022 Revised Guidance assumptions are as follows:

	2022 Guidance
Exploration and development expenditures ⁽¹⁾ (\$ millions)	\$28 - \$30
Cash costs ⁽¹⁾ (\$/boe)	\$17.00 - \$20.00
Average daily production (boe/d)	6,500 - 6,750
Production mix (%)	20% oil and NGL

⁽³⁾ Non-GAAP measure and ratio. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MDA for an explanation of composition.

Perpetual continues its environmental, social, and corporate governance ("ESG") focus, with total abandonment and reclamation expenditures of up to \$2.0 million planned in 2022, with an estimated \$0.6 million to be funded through Alberta's Site Rehabilitation Program ("SRP"). The remaining \$1.4 million will more than satisfy the Company's annual area-based closure spending requirements of \$0.9 million.

FIRST QUARTER FINANCIAL AND OPERATING RESULTS

Cash Flow used in Investing Activities, Capital Expenditures, Acquisitions and Dispositions

Cash flow used in investing activities was \$12.4 million as compared to \$1.0 million in the comparative prior period. In addition to cash flow used in investing activities, Perpetual uses capital expenditures to measure its capital investments compared to the Company's annual budgeted expenditures. The capital budget excludes acquisition and disposition activities as well as the accounting impact of any accrual changes. "Capital expenditures" is not a standardized measure and, therefore, may not be comparable with the calculation of similar measures by other entities. For reconciliation of cash flow used in investing activities to capital expenditures, refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A.

The following table summarizes capital spending for both property, plant and equipment assets and exploration and evaluation assets, excluding non-cash items:

(\$ thousands)	Three months ended March 31,	
	2022	2021
Exploration and development	4,830	1
Corporate assets	7	2
Capital expenditures	4,837	3

Exploration and development spending by area

(\$ thousands)	Three months ended March 31,	
	2022	2021
West Central	34	1
Eastern Alberta	4,796	–
Total	4,830	1

Wells drilled by area

(gross/net)	Three months ended March 31,	
	2022	2021
West Central	-/-	2/1.0
Eastern Alberta ⁽¹⁾	1/1.0	-/-
Total	1/1.0	2/1.0

⁽¹⁾ One of the two (2.0 net) multi-lateral wells drilled in the first quarter of 2022 was rig released in early April 2022.

Perpetual's exploration and development spending in the first quarter of 2022 was \$4.8 million. The spending represented a two-well drilling program at Mannville in Eastern Alberta where two (2.0 net) horizontal, multi-lateral wells targeting heavy oil in the Sparky formation were drilled, with the second well rig released in the second quarter of 2022. The first well was brought on stream prior to the end of the first quarter.

Perpetual's exploration and development spending in the first quarter of 2021 was nominal. At the 50% owned East Edson property, two (1.0 net) horizontal Wilrich wells were drilled and tied-in to production late in the first quarter of 2021 at no cost to Perpetual, pursuant to the joint venture partner's carried interest drilling commitment.

Acquisitions and Dispositions

There were no acquisitions or dispositions during the first quarter of 2022.

During the first quarter of 2021, Perpetual participated for its 50% working interest in the acquisition of certain undeveloped lands, wells, pipelines and gross overriding royalties from a third party in the East Edson core area, for net consideration of \$0.6 million. Dispositions during the first quarter of 2021 also included the sale of non-operated equipment for net proceeds to Perpetual of \$0.2 million.

On September 3, 2021, the Company closed the disposition of the sale of the Clearwater Assets to Rubellite for total consideration of \$65.5 million, including \$53.6 million in promissory notes, the assumption by Rubellite of \$5.8 million in promissory notes due to 197Co, the return to Perpetual of 8.2 million Perpetual common shares valued at \$2.8 million, 0.7 million Rubellite common shares ("AIMCo bonus shares") valued at \$1.4 million and the issuance of Rubellite Share Purchase Warrants to purchase 4.0 million Rubellite common shares valued at \$2.0 million.

Expenditures on decommissioning obligations

During the first quarter of 2022, Perpetual executed \$0.07 million (Q1 2021 – \$0.3 million) of abandonment and reclamation projects, of which \$0.02 million was funded by Alberta's Site Rehabilitation Program. SRP funding is presented on the condensed interim consolidated statements of income (loss) and comprehensive income (loss) as other income. One reclamation certificate was received from the Alberta Energy Regulator ("AER") during the first quarter of 2022 (Q1 2021 – ten reclamation certificates). Total abandonment and reclamation expenditures of up to \$2.0 million are forecast in 2022, with up to \$0.6 million anticipated to be funded through the SRP. Abandonment and reclamation spending eventually leads to the cessation of associated property tax and surface lease expenses, reducing future operating costs.

Production

	Three months ended March 31,	
	2022	2021
Production		
Conventional natural gas (Mcf/d) ⁽¹⁾	34,330	22,920
Conventional heavy crude oil (bbl/d) ⁽²⁾	682	1,097
NGL (bbl/d) ⁽³⁾	400	294
Total production (boe/d)	6,804	5,211

⁽¹⁾ Conventional natural gas production yielded a heat content of 1.17 GJ/Mcf for the first quarter of 2022 (Q1 2021 – 1.17), resulting in higher realized natural gas prices on a \$/Mcf basis. See "Commodity Prices".

⁽²⁾ Primarily from Eastern Alberta which produces primarily conventional heavy crude oil.

⁽³⁾ Primarily from West Central which produces primarily liquids-rich conventional natural gas.

	Three months ended March 31,	
	2022	2021
Production by core area		
Eastern Alberta	1,049	1,463
West Central	5,755	3,748
Total production (boe/d)	6,804	5,211

First quarter production averaged 6,804 boe/d, up 31% from 5,211 boe/d in the comparative period of 2021. In the first quarter of 2022, the production mix was comprised of 84% conventional natural gas and 16% conventional heavy crude oil and NGL, as compared to 73% of conventional natural gas and 27% conventional heavy crude oil and NGL in the first quarter of 2021. Production levels steadily increased as nine (4.5 net) Edson wells were progressively drilled through 2021 and brought on production, partially offset by the disposition of the Clearwater oil assets in the third quarter of 2021.

First quarter conventional natural gas production averaged 34.3 MMcf/d, an increase of 66% from 20.7 MMcf/d in the comparative period of 2021 with production additions from the nine (4.5 net) new East Edson liquids-rich gas wells, partially offset by natural declines.

First quarter NGL production was 400 bbl/d, 36% higher than the comparative period of 2021. The increase in NGL production is closely tied to higher conventional natural gas production at East Edson, where NGL yields were 11.7 bbls per MMcf in the first quarter of 2022 (Q1 2021 – 12.8 bbls per MMcf). Perpetual's average NGL sales composition for the first quarter of 2022 consisted of 64% condensate, higher than the prior year period when condensate represented 61% of total NGL production.

Conventional heavy crude oil production in Eastern Alberta was 38% lower than the first quarter of 2021 due primarily to natural declines and the sale of the Clearwater Assets which contributed average production 430 boe/d in the comparative period.

Oil and Natural Gas Revenue

<i>(\$ thousands, except as noted)</i>	Three months ended March 31,	
	2022	2021
Oil and natural gas revenue		
Natural gas	15,929	6,022
Oil	5,861	4,032
NGL	3,163	1,482
Oil and natural gas revenue	24,953	11,536

	Three months ended March 31,	
	2022	2021
Average Benchmark Prices		
NYMEX Daily Index (US\$/MMBtu)	5.07	2.69
AECO 5A Daily Index (\$/GJ)	4.49	2.99
AECO 5A Daily Index (\$/Mcf) ⁽¹⁾	4.74	3.15
West Texas Intermediate ("WTI") (US\$/bbl)	94.29	57.84
Exchange rate (US\$/CAD\$)	1.27	1.27
West Texas Intermediate ("WTI") (CAD\$/bbl)	119.39	73.46
Western Canadian Select ("WCS") (CAD\$/bbl)	101.01	57.62
WCS differential to WTI (US\$/bbl)	(14.53)	(12.47)
Perpetual Average Realized Prices⁽²⁾		
Natural gas (\$/Mcf) ⁽¹⁾	5.16	2.92
Oil (\$/bbl)	95.55	40.84
NGL (\$/bbl)	87.86	56.01
Average realized price (\$/boe)	40.75	24.60

⁽¹⁾ Converted from \$/GJ using a standard energy conversion rate of 1.06 GJ:1 Mcf.

⁽²⁾ Non-GAAP ratio. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.

Oil and natural gas revenue for the three months ended March 31, 2022 of \$25.0 million was 116% higher than the first quarter of 2021, due to significantly higher reference prices for all products and the 31% increase in average daily production.

Natural gas revenue of \$15.9 million in the first quarter of 2022 comprised 64% (Q1 2021 – 52%) of total revenue while natural gas production was 84% (Q1 2021 – 73%) of total production. Natural gas revenue increased 165% from the prior year period (Q1 2021 – \$6.0 million), reflecting the combined impact of higher AECO Daily Index prices and the 50% increase in conventional natural gas production volumes driven by 2021 drilling activity at East Edson.

Oil revenue of \$5.9 million represented 23% (Q1 2021 – 35%) of total revenue while conventional heavy crude oil production was 10% (Q1 2021 – 21%) of total production. Oil revenue was 45% higher than the first quarter of 2021, as a result of higher benchmark prices, partially offset by a 38% decrease in heavy crude oil production due to the sale of the Clearwater oil assets in the third quarter of 2021. Compared to the first quarter of 2021, the WCS average price of \$101.01/bbl increased by 57%, in line with the increase in WTI prices to US\$94.29/bbl (Q1 2021 – US\$57.84/bbl).

NGL revenue for the first quarter of 2022 was \$3.2 million, represented 13% (Q1 2021 – 13%) of total revenue while NGL production was just 6% (Q1 2021 – 6%) of total Company production. NGL revenue increased by 113% over the prior year period, reflecting a 36% increase in NGL production and an increase in all NGL component prices compared to the prior year period, in step with the rise in WTI light oil prices.

Risk Management Contracts

The Company's realized price deviates from the index due to the Company's market diversification strategies that balances pricing exposure over multiple markets. In addition, the Company may use both financial derivatives and physical delivery contracts to manage fluctuations in commodity prices. The Company uses "average realized prices after risk management contracts" which is not a standardized measure, and therefore may not be comparable with the calculation of similar measures by other entities. The measure is used by management to calculate the Company'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 cash flows from potential volatility.

	Three months ended March 31,	
	2022	2021
Risk Management Contracts		
Unrealized loss on financial natural gas contracts	(7,004)	–
Unrealized gain on physical natural gas contracts	–	905
Unrealized loss on financial oil contracts	(3,990)	–
Unrealized loss on physical oil contracts	–	(469)
Unrealized gain (loss) on risk management contracts	(10,994)	436
Realized gain (loss) on financial natural gas contracts ⁽¹⁾	1,267	(1,374)
Realized loss on financial oil contracts	(987)	–
Realized gain (loss) on risk management contracts	280	(1,374)
Net loss on risk management contracts	(10,714)	(938)

⁽¹⁾ Includes a realized gain of \$1.2 million for the three months ended March 31, 2022 (Q1 2021 – realized losses of \$1.4 million) related to a modification to the Company's market diversification contract obligations for a future period.

	Three months ended March 31,	
	2022	2021
<i>(\$ thousands, except as noted)</i>		
Realized gain (loss) on risk management contracts		
Realized gain (loss) on financial natural gas contracts (\$/Mcf)	0.41	(0.67)
Realized loss on financial oil contracts (\$/bbl)	(16.09)	–
Realized gain (loss) on risk management contracts (\$/boe)	0.46	(2.93)
Perpetual Average Realized Prices after risk management contracts⁽¹⁾		
Natural gas (\$/Mcf) ⁽¹⁾	5.57	2.25
Oil (\$/bbl)	79.46	40.84
NGL (\$/bbl)	87.86	56.01
Average realized price (\$/boe)	41.21	21.67

⁽¹⁾ Non-GAAP ratio. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.

Realized gains on risk management contracts totaled \$0.3 million for the first quarter of 2022, compared to losses of \$1.4 million for the same period of 2021. The realized gain of \$1.3 million includes a gain on the elimination of the performance obligations on 10,000 MMBtu for the November 1, 2022 to March 31, 2023 period of the Company's market diversification contract obligations in consideration for the payment of \$1.2 million to be collected over the original contract period. The realized loss related to oil contracts was \$1.0 million. In the comparative period, the total realized loss was due to the elimination of the performance obligation on a portion of the Company's market diversification contract obligations for the April 1, 2021 to October 31, 2021 period in the amount of \$1.4 million.

For the first quarter of 2022, Perpetual recorded an unrealized loss on risk management contracts of \$11.0 million (Q1 2021 – \$0.4 million unrealized gain). 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 (used in) operating activities as non-cash items. 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

	Three months ended March 31,	
<i>(\$ thousands, except as noted)</i>	2022	2021
Natural gas royalties – crown	539	159
Oil royalties – crown	268	115
NGL royalties – crown	204	255
Total crown royalties	1,011	529
Natural gas royalties – freehold and overriding	1,510	988
Oil royalties – freehold and overriding	408	336
NGL royalties – freehold and overriding	313	278
Total freehold and overriding	2,231	1,602
Total royalties	3,242	2,131
\$/boe	5.30	4.54

Royalties as a percentage of oil and natural gas revenue⁽¹⁾

Crown (% of oil and natural gas revenue)	4.1	4.6
Freehold and overriding (% of oil and natural gas revenue)	8.9	13.9
Total (% of oil and natural gas revenue)	13.0	18.5
Natural gas royalties (% of natural gas revenue)	12.9	19.0
Oil royalties (% of oil revenue)	11.5	11.2
NGL royalties (% of NGL revenue)	16.4	36.0

⁽¹⁾ Non-GAAP ratio. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.

Total royalties for the first quarter of 2022 were \$3.2 million, 52% higher than the comparative period of 2021 as a result of increased production and higher reference prices. On a unit-of-production basis, royalties were up 17% to \$5.30/boe (Q1 2021 – \$4.54/boe). The combined average royalty rate on oil and natural gas revenue decreased from 2021, due primarily to the reduced impact of the fixed volume East Edson gross overriding royalty as a percentage of higher production. The Alberta Gas Reference price and AECO Daily Index prices which are used to calculate crown and freehold natural gas royalties, respectively, increased significantly during the year.

Freehold and overriding royalties increased 39% from the first quarter of 2021, due to the impact of higher AECO Daily Index and NGL prices. As part of the sale of 50% of the East Edson property on April 1, 2020, 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". Prior to November 1, 2021, the retained East Edson royalty obligation was paid in-kind, and settled through non-cash delivery of contractual natural gas and NGL volumes to the royalty holder. As of November 1, 2021, the royalty obligation is settled through payment in cash.

Production and operating expenses

	Three months ended March 31,	
<i>(\$ thousands, except as noted)</i>	2022	2021
Production and operating expenses	3,659	3,286
\$/boe	5.98	7.01

Total production and operating expenses decreased 15% on a unit-of-production basis to \$5.98/boe for the first quarter of 2022, compared to \$7.01/boe for the comparable period of 2021 due to increased conventional natural gas production at East Edson which has a high percentage of fixed operating costs and much lower operating costs as compared to the Company's conventional heavy crude oil production. The decrease was also related to the decrease in conventional heavy oil production as a result of the sale of the Clearwater Assets and natural declines. On an absolute dollar basis, production and operating costs increased by 11% on 31% higher average production volumes.

Transportation costs

	Three months ended March 31,	
<i>(\$ thousands, except as noted)</i>	2022	2021
Transportation costs	692	690
\$/boe	1.13	1.47

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 first quarter of 2022 were \$0.7 million, consistent with the prior year period of \$0.7 million. On a unit-of-production basis, transportation costs decreased by 23% to \$1.13/boe in the first quarter of 2022 (Q1 2021 - \$1.47/boe), due to increased natural gas production and increased transportation optimization activities.

Operating netbacks

"Operating netback" is a non-GAAP measure determined by deducting royalties, production and operating expenses, and transportation costs from oil and natural gas revenue. Operating netback is also calculated on a per boe basis using total production sold in the period. Perpetual considers operating netback to be an important performance measure to evaluate its operational performance as it demonstrates its profitability relative to commodity prices. Operating netback is not a standardized measure and, therefore, may not be comparable with the calculation of similar measures by other entities.

The following table highlights Perpetual's operating netbacks for the three months ended March 31, 2022 and 2021:

(\$/boe) (\$ thousands)	Three months ended March 31,			
		2022	2021	
Production (boe/d)		6,804	5,211	
Oil and natural gas revenue	40.75	24,953	24.60	11,536
Royalties	(5.30)	(3,242)	(4.54)	(2,131)
Production and operating expenses	(5.98)	(3,659)	(7.01)	(3,286)
Transportation costs	(1.13)	(692)	(1.47)	(690)
Operating netback ⁽¹⁾	28.34	17,360	11.58	5,429
Realized gain (loss) on risk management contracts	0.46	280	(2.93)	(1,374)
Total operating netback, including risk management contracts	28.80	17,640	8.65	4,055

⁽¹⁾ Non-GAAP measure. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MDA for an explanation of composition.

For the first quarter of 2022, Perpetual's operating netback, including risk management contracts, was \$17.6 million (\$28.80/boe), up significantly from \$4.1 million (\$8.65/boe) in the comparative period of 2021. The increase was due to higher oil and natural gas revenue driven by increased pricing for all commodities, and lower production and operating expenses and transportation expenses, which more than offset higher royalties.

General and administrative ("G&A") expenses

(\$ thousands, except as noted)	Three months ended March 31,	
	2022	2021
G&A expense before overhead recoveries	2,965	2,075
MSA recoveries ⁽¹⁾	(308)	-
Overhead recoveries	(578)	(20)
Total G&A expense	2,079	2,055
\$/boe	3.39	4.38

⁽¹⁾ As part of the sale of the Clearwater Assets to Rubellite on September 3, 2021, Perpetual entered into a Management Operating and Services Agreement (the "MSA") with Rubellite whereby Perpetual receives payment for certain technical and administrative services provided to Rubellite on a cost recovery basis.

During the first quarter of 2022, G&A expense remained consistent with the prior year period at \$2.1 million. Before recoveries, G&A was \$3.0 million in the first quarter of 2022, an increase of 43% from the comparative period. The increase in G&A was related to higher employee salaries and benefits which had been reduced in response to the collapse in commodity prices and were gradually re-instated over the second half of 2021. Overhead recoveries of \$0.6 million increased over the prior year period (Q1 2021 – \$0.02 million) due to increased capital spending and higher absolute production and operating costs.

During 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 \$0.4 million during the first quarter of 2021. There were no payments received in 2022.

Share-based payments

(\$ thousands, except as noted)	Three months ended March 31,	
	2022	2021
Share-based payments (non-cash)	240	105
Share-based payments (cash)	374	375
Total share-based payments	614	480

Share-based payments expense for the first quarter of 2022 was \$0.6 million, largely unchanged from the comparative period of 2021. During the first quarter of 2022, 0.04 million deferred options, 0.1 million deferred shares, 0.04 million share options, 0.7 million performance share rights, and were granted to Officers, Directors, and employees of the Company.

Depletion and depreciation

(\$ thousands, except as noted)	Three months ended March 31,	
	2022	2021
Depletion and depreciation	4,018	2,986
\$/boe	6.56	6.37

The Company calculates depletion using the net book value of the asset, future development costs associated with proved and probable reserves, salvage values on associated production equipment, as well as proved and probable reserves. As at March 31, 2022, depletion was calculated on a \$155.9 million depletable balance and \$71.5 million in future development costs (2021 – \$154.3 million depletable balance and \$75.3 million in future development costs). The depletable base excluded an estimated \$3.8 million (2021 – \$3.7 million) of salvage value.

Depletion and depreciation expense for the first quarter of 2022 was \$4.0 million or \$6.56/boe (2021 – \$3.0 million or \$6.37/boe). The increase reflects the 31% increase in production volumes compared to the comparative period. On a unit-of-production basis, depletion and depreciation expense increased by 3% compared to the first quarter of 2021 as a result of impairment reversals recognized during the second and fourth quarters of 2021.

Depreciation expense for the period ended March 31, 2022 was attributable to office furniture, office and computer equipment, leasehold improvements and right of use assets.

Impairment

In accordance with IFRS, the Company is required to assess when internal or external indicators of impairment or impairment reversal exist, and impairment testing is required. During the first quarter of 2022, the Company determined that indicators of impairment reversal existed and that the estimated recoverable amounts of the Eastern Alberta CGU exceeded the carrying amounts of \$44.8 million. Accordingly, a non-cash impairment reversal of \$7.4 million was included in net income. All previous impairments charges that were eligible for reversal have now all been reversed as at March 31, 2022 for property, plant and equipment.

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. During the fourth quarter of 2021, the Company determined that indicators of impairment reversal existed and that the estimated recoverable amounts of the Eastern Alberta CGU exceeded the carrying amounts of \$42.2 million. Accordingly, a non-cash impairment reversal of \$0.5 million was included in net income.

During the second quarter of 2021, the Company determined that indicators 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 both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to oil and natural gas properties in property, plant and equipment. During the first quarter of 2022, Perpetual moved the Mannville undeveloped land value to PP&E, at a value of \$0.2 million, which was equal to the book value in E&E, as a result of the successful drilling program during Q1 2022. As a result of the impairment test required at transfer, there were no impairments recorded to E&E in the first quarter of 2022. There were no indicators of impairment or impairment reversal as at March 31, 2022.

Finance expense

(\$ thousands)	Three months ended March 31,	
	2022	2021
Cash finance expense		
Interest on revolving bank debt	162	276
Interest on term loan	54	–
Interest on 2022 Senior Notes ⁽¹⁾	–	(1,253)
Interest on 2025 Senior Notes ⁽²⁾	804	–
Interest on lease liabilities	32	40
Total cash finance expense	1,052	(937)
Non-cash finance expense		
Interest paid in-kind on term loan	–	948
Interest paid in-kind on 2025 Senior Notes ⁽²⁾	–	2,057
Gain on senior note maturity extension ⁽²⁾	–	(1,591)
Amortization of debt issue costs	515	378
Accretion on decommissioning obligations	136	98
Change in fair value of other liability	1,501	–
Change in fair value of royalty obligations	1,595	1,109
Total non-cash finance expense	3,747	2,999
Finance expenses recognized in net income (loss)	4,799	2,062

⁽¹⁾ The Company satisfied the January 23, 2022 semi-annual interest payment of \$1.6 million by making a cash payment.

⁽²⁾ On January 22, 2021, Perpetual's 2022 Senior Notes were exchanged for 2025 Senior Notes, providing Perpetual the option to pay interest in-kind ("PIK"). 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 Notes 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 a PIK Interest Payment and accrued \$0.8 million of non-cash interest expense for the three months ended March 31, 2021.

Total cash finance expense was \$1.1 million in the first quarter of 2022, higher than the prior year period (Q1 2021 – negative \$0.9 million). The increase was due primarily to payment of interest on the Senior Notes and Term Loan in cash rather than in-kind.

Total non-cash finance expense for the first quarter of 2022 was \$3.7 million, \$0.7 million higher than the prior year period (Q1 2021 – \$3.0 million) due the change in the fair value of the royalty obligations related to higher forecast AECO natural gas and NGL prices and the recognition of future contingent payments related to the Second Lien Loan Settlement which are recorded as “other liability”. The increase was partially offset by the payment of interest on the Senior Notes and Term Loan in cash rather than in-kind.

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 paid 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. The gain has been recorded as a reduction of non-cash finance expense.

On September 3, 2021, upon completion of the plan of arrangement related to the Rubellite Transactions, 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, 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 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 adjusted 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.

Perpetual uses net debt, adjusted working capital, enterprise value and trailing twelve-months adjusted funds flow as important indicators of capital resources, management and liquidity. Net debt includes the carrying value of net bank debt, the undiscounted portion of the other liability, the principal amount of the Term Loan, and the principal amount of senior notes. Net debt is calculated by deducting any borrowing from adjusted working capital. Adjusted working capital is current assets less current liabilities, adjusted for the removal of the current portion of risk management contracts. Perpetual uses net debt as an alternative measure of outstanding debt. Management considers net debt and adjusted working capital as important measures in assessing the liquidity of the Company. 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. For calculation of adjusted working capital and adjusted funds flow, refer to the section entitled “Non-GAAP and Other Financial Measures” contained within this MD&A.

Enterprise value is calculated by multiplying the current shares outstanding by the market price at the end of the period and then adjusting it by the net debt. The Company considers enterprise value as an important measure as it normalizes the market value of the Company’s shares for its capital structure.

Capital management

<i>(\$ thousands, except as noted)</i>	March 31, 2022	December 31, 2021
Revolving bank debt	9,553	2,487
Term loan, principal amount	2,671	2,671
Senior notes, principal amount	36,583	36,582
Other liability, undiscounted amount	3,404	1,387
Adjusted working capital deficiency (surplus) ⁽¹⁾	(3,413)	16,143
Net debt ⁽¹⁾	48,798	59,270
Shares outstanding at end of period (<i>thousands</i>) ⁽³⁾	63,131	63,567
Market price at end of period (<i>\$/share</i>)	0.76	0.70
Market value of shares ⁽¹⁾	47,980	44,497
Enterprise value ⁽¹⁾	96,778	103,767
Net debt as a percentage of enterprise value ⁽²⁾	50%	57%
Trailing twelve-months adjusted funds flow ⁽¹⁾	28,901	16,746

⁽¹⁾ Non-GAAP measure. Refer to the section entitled “Non-GAAP and Other Financial Measures” contained within this MD&A for an explanation of composition.

⁽²⁾ Non-GAAP ratio. Refer to the section entitled “Non-GAAP and Other Financial Measures” contained within this MD&A for an explanation of composition.

⁽³⁾ Shares outstanding are presented net of shares held in trust.

At March 31, 2022, Perpetual had total net debt of \$48.8 million, down \$10.5 million (18%) from December 31, 2021 as adjusted funds flow exceeded capital expenditures during the quarter.

Perpetual had available liquidity at March 31, 2022 of \$6.4 million, comprised of the \$17.0 million Credit Facility Borrowing Limit, less current borrowings and letters of credit of \$9.6 million and \$1.0 million, respectively.

Revolving bank debt

As at March 31, 2022, the Company's Credit Facility had a Borrowing Limit of \$17.0 million (December 31, 2021 – \$17.0 million) under which \$9.6 million was drawn (December 31, 2021 – \$2.5 million) and \$1.0 million of letters of credit had been issued (December 31, 2021 – \$1.0 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 March 31, 2022 was 5.9%. For the period ended March 31, 2022 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.

During the third quarter of 2021, Perpetual entered into an agreement with its syndicate of lenders to extend its Credit Facility maturity 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 all outstanding advances will be repayable on May 31, 2023.

During the fourth quarter of 2021, the Credit Facility borrowing limit was reduced from \$20.0 million to \$17.0 million and on December 17, 2021 the semi-annual borrowing base redetermination of the Company's Credit Facility was completed and the existing \$17.0 million borrowing limit and term of the credit facility was maintained. The next borrowing limit redetermination is scheduled to occur on or before May 31, 2022.

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 its Term Loan and senior note principal and interest, and to pay dividends on or repurchase its common shares.

At March 31, 2022, the Credit Facility was not subject to any financial covenants and the Company was in compliance with all customary non-financial covenants.

Term loan

	Maturity date	Interest rate	March 31, 2022		December 31, 2021	
			Principal	Carrying Amount	Principal	Carrying amount
Term loan	December 31, 2024	8.1%	\$ 2,671	\$ 2,478	\$ 2,671	\$ 2,469

During the third quarter of 2021, Perpetual executed its agreement with its Term Loan lender for the settlement of principal and all interest owing on the Term Loan. Perpetual substantively modified the previous Term Loan with Alberta Investment Management Corporation ("AIMCo") in exchange for the payment of approximately \$38.5 million in cash, 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 initially valued at \$0.2 million (the "Second Lien Loan Settlement"). 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. Perpetual has the ability to repay the Term Loan at any time without any repayment penalty. All amounts related to the Second Lien Loan Settlement were paid on October 5, 2021.

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 March 31, 2022, the Term Loan was not subject to any financial covenants and the Company was in compliance with all customary non-financial covenants.

Senior notes

	Maturity date	Interest rate	March 31, 2022		December 31, 2021	
			Principal	Carrying Amount	Principal	Carrying amount
Senior notes	January 23, 2025	8.75%	\$ 36,583	\$ 34,486	\$ 36,583	\$ 34,189

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"). In 2021, the Company elected to pay the semi-annual interest payments of \$1.5 million by making PIK Interest Payments, increasing the principal amount to \$36.6 million.

The Company satisfied the January 23, 2022 semi-annual interest payment of \$1.6 million by making a cash payment.

At March 31, 2022, the senior notes are recorded at the present value of future cash flows, net of \$2.4 million in issue and principal discount costs which are amortized over the remaining term using a weighted average effective interest rate of 13.7%.

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 March 31, 2022, 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 \$15.9 million of the 2025 Senior Notes outstanding. An entity that is associated with the Company's CEO, and entities associated with other Directors of the Company hold an additional \$10.3 million and \$0.8 million of the 2025 Senior Notes outstanding, respectively.

Equity

At March 31, 2022, there were 63.2 million common shares outstanding, net of 0.9 million shares held in trust to resource employee compensation programs. 0.4 shares were purchased by the independent trustee to be held in trust during the first quarter of 2022 (Q1 2021 – nil). Basic and diluted weighted average shares outstanding for the three months ended March 31, 2022 were 63.2 and 74.3 million (Q1 2021 – 61.6 million – basic and diluted) respectively.

At May 4, 2022, there were 63.5 million common shares outstanding which is net of 0.6 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:

<i>(millions)</i>	May 4, 2022
Share options	4.1
Performance share rights	3.8
Compensation awards	8.4
Total⁽¹⁾	16.3

⁽¹⁾ 8.0 million compensation awards, 2.4 million share options, and 3.8 million performance share rights have an exercise price below the March 31, 2022 closing price of the Company's common shares of \$0.76 per share.

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 (see "Non-GAAP and Other Financial Measures"), 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 revenue. Diversification of markets is a further risk management strategy employed by the Company.

As at May 4, 2022, the Company entered into the following swap commodity contracts:

Commodity	Volumes sold	Term	Reference/ Index	Contract Traded Bought/sold	Market Price (CAD\$/bbl)
Natural gas	17,500 GJ/d	Apr 1 – Sept 30, 2022	AECO 5A (CAD\$/GJ)	Swap - sold	\$3.66
Natural gas	2,500 GJ/d	Apr 1 – Dec 31, 2022	AECO 5A (CAD\$/GJ)	Swap - sold	\$3.57
Natural gas	5,000 GJ/d	Oct 1 – Dec 31, 2022	AECO 5A (CAD\$/GJ)	Swap - sold	\$4.53
Natural gas	5,000 GJ/d	Jan 1 - Mar 31, 2023	AECO 5A (CAD\$/GJ)	Swap - sold	\$4.62
Crude Oil	100 bbl/d	Apr 1 – Jun 30, 2022	WTI (CAD\$/bbl)	Swap – sold	\$104.50
Crude Oil	100 bbl/d	Jul 1 – Dec 31, 2022	WTI (CAD\$/bbl)	Swap – sold	\$103.30
Crude Oil	200 bbl/d	Apr 1 – Jun 30, 2022	WCS FP (CAD\$/bbl)	Swap – sold	\$76.70
Crude Oil	200 bbl/d	Apr 1 – Dec 31, 2022	WCS FP (CAD\$/bbl)	Swap – sold	\$70.66
Crude Oil	200 bbl/d	Jul 1 – Dec 31, 2022	WCS FP (CAD\$/bbl)	Swap – sold	\$70.80

As at May 4, 2022, the Company entered into the following swap WTI-WCS basis differential which settle in CAD\$:

Commodity	Volumes sold	Term	Reference/ Index	Market Price (CAD\$/bbl)
Crude oil	100 bbl/d	Mar 1 – Dec 31, 2022	WCS Differential	(17.25)
Crude oil	100 bbl/d	Jan 1 – Dec 31, 2023	WCS Differential	(17.30)

As a May 4, 2022, 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 (CAD\$/bbl)
Natural gas	5,000 GJ/d	Apr 2022	AECO	Sold	\$4.53
Natural gas	5,000 GJ/d	Apr 2022	AECO	Bought	\$4.22

In the first quarter of 2022, the Company eliminated 10,000 MMBtu/d of fixed volume obligations for the period commencing November 1, 2022 and ending on March 31, 2023 and will receive payment of \$1.2 million over the term of the associated contract volumes.

In the first quarter of 2021, the Company eliminated its remaining performance obligations on fixed volume obligations of 10,000 MMBtu/d for the period commencing April 1, 2021 and ending on October 31, 2021 in consideration for the payment of \$1.4 million to be collected over the term of the associated contract volumes.

In the third quarter of 2021, the Company eliminated its remaining 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.

These modifications have been recognized as realized gain or losses on risk management contracts in the condensed interim consolidated statement of income (loss) and comprehensive income (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 March 31, 2023 Daily sales volume (MMBtu/d)	April 1, 2023 to October 31, 2024 Daily sales volume (MMBtu/d)
Malin	5,000	15,000
Dawn	15,000	15,000
Emerson	10,000	10,000
Total sales volume obligation	30,000	40,000

Subsequent to March 31, 2022, the Company eliminated 5,000 MMBtu/d of fixed volume obligations for the period commencing November 1, 2022 and ending March 31, 2023, and will receive payment of \$0.8 million over the term of the associated contract volumes.

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 six-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 (the "Second Summary Dismissal Application"). 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 appealed this decision, and the Court of Appeal hearing took place on February 10, 2022, with the panel reserving judgement. On March 25, 2022, the Court of Appeal issued their judgement with respect to this matter and allowed PwC's appeal on the basis that the Court of Queen's Bench erred in law in its handling of the end-of-life obligations and that based on the record, it could not be concluded the error was without consequence, and that the Court of Queen's Bench also erred in agreeing to hear the Second Summary Dismissal Application. On this basis, the BIA Claim has been directed to trial.

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.

OFF BALANCE SHEET ARRANGEMENTS

Perpetual has no off balance sheet arrangements.

SUMMARY OF QUARTERLY RESULTS

(\$ thousands, except as noted)	Q1 2022	Q4 2021	Q3 2021	Q2 2021
Financial				
Oil and natural gas revenue	24,953	21,449	14,603	13,226
Net income	7,162	5,669	51,141	27,017
Per share – basic	0.11	0.09	0.80	0.43
Per share – diluted	0.10	0.08	0.72	0.38
Cash flow from operating activities	6,272	1,624	6,655	2,854
Adjusted funds flow ⁽¹⁾	14,117	8,585	3,315	2,302
Per share – basic ⁽²⁾	0.22	0.13	0.05	0.04
Capital expenditures ⁽¹⁾	4,837	7,558	9,947	1,554
Net payments (proceeds) on acquisitions and dispositions ⁽¹⁾	-	53,407	(4,060)	46
Common shares (thousands)				
Weighted average – basic	63,216	63,853	63,801	62,574
Weighted average – diluted	74,348	70,873	63,801	62,574
Operating				
Daily average production				
Natural gas (MMcf/d)	34.3	31.5	21.6	22.2
Oil (bbl/d)	682	714	972	1,074
NGL (bbl/d)	400	395	300	331
Total (boe/d)	6,804	6,359	4,876	5,099
Perpetual Average Realized Prices⁽²⁾				
Natural gas (\$/Mcf)	5.16	4.80	3.50	3.03
Oil (\$/bbl)	95.55	74.03	65.22	55.71
NGL (\$/bbl)	87.86	73.53	65.40	55.48

(\$ thousands, except as noted)	Q1 2021	Q4 2020	Q3 2020	Q2 2020
Financial				
Oil and natural gas revenue	11,536	8,178	7,089	3,722
Net income (loss)	(2,706)	14,443	(7,491)	(8,831)
Per share – basic	(0.04)	0.24	(0.12)	(0.15)
Per share – diluted	(0.04)	0.24	(0.12)	-
Cash flow from (used in) operating activities	1,682	(1,104)	(2,538)	(2,777)
Adjusted funds flow ⁽¹⁾	2,544	1,240	(2,098)	(3,328)
Per share – basic ⁽²⁾	0.04	0.02	(0.03)	(0.05)
Capital expenditures ⁽¹⁾	3	466	251	(11)
Net payments (proceeds) on acquisitions and dispositions ⁽¹⁾	469	-	133	(34,661)
Common shares (thousands)				
Weighted average – basic and diluted	61,603	61,266	61,200	60,776
Operating				
Daily average production				
Conventional natural gas (MMcf/d)	22.9	19.5	16.3	16.9
Heavy crude oil (bbl/d)	1,097	1,241	1,193	573
NGL (bbl/d)	294	237	273	268
Total (boe/d)	5,211	4,730	4,188	3,662
Perpetual Average Realized Prices⁽²⁾				
Natural gas (\$/Mcf)	2.92	1.95	1.63	1.34
Oil (\$/bbl)	40.84	33.69	35.89	23.24
NGL (\$/bbl)	56.01	38.07	28.07	18.45

⁽¹⁾ Non-GAAP measure. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MDA for an explanation of composition.

⁽²⁾ Non-GAAP ratio. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.

NON-GAAP AND OTHER FINANCIAL MEASURES

Throughout this MD&A and in other materials disclosed by the Company, Perpetual employs certain measures to analyze financial performance, financial position and cash flow. These non-GAAP and other financial measures do not have any standardized meaning prescribed under IFRS and therefore may not be comparable to similar measures presented by other entities. The non-GAAP and other financial measures should not be considered to be more meaningful than GAAP measures which are determined in accordance with IFRS, such as net income (loss), cash flow from operating activities, and cash flow from investing activities, as indicators of Perpetual's performance.

Non-GAAP Financial Measures

Capital Expenditures or Capital Spending: Perpetual uses capital expenditures or capital spending related to exploration and development to measure its capital investments compared to the Company's annual capital budgeted expenditures. Perpetual's capital budget excludes acquisition and disposition activities as well as the accounting impact of any accrual changes.

The most directly comparable GAAP measure for capital expenditures or capital spending is cash flow used in investing activities. A summary of the reconciliation of cash flow used in investing activities to capital expenditures or capital spending, is set forth below:

	Three months ended March 31,	
	2022	2021
Net cash flows used in investing activities	12,350	983
Acquisitions	-	(625)
Net proceeds on dispositions, net of cash disposed	-	156
Purchase of marketable securities	(23)	-
Change in non-cash working capital	(7,490)	(511)
Capital expenditures	4,837	3

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.

	Three months ended March 31,	
	2021	2021
<i>(\$ thousands, except per boe amounts)</i>		
Royalties	3,242	2,131
Production and operating	3,659	3,286
Transportation	692	690
General and administrative	2,079	2,055
Cash finance expense	1,052	(937)
Cash costs	10,724	7,225
Cash costs per boe	17.52	15.41

Operating netback: Operating netback is calculated by deducting royalties, production and operating expenses, and transportation costs from oil and natural revenue. Operating netback is also calculated on a per boe basis using total production sold in the period and presented before and realized gains or losses from risk management contracts. Perpetual considers that netback is a key industry performance indicator and one that provides investors with information that is also commonly presented by other crude oil and natural gas producers. Perpetual considers operating netback to be an important performance measure to evaluate its operational performance as it demonstrates its profitability relative to current commodity prices. Refer to reconciliations earlier in the MD&A under the "Operating Netbacks" section.

Net Debt: Net debt is calculated by deducting any borrowing under Perpetual's reserve-based credit facility (the "Credit Facility") from adjusted working capital. Adjusted working capital is current assets less current liabilities, adjusted for the removal of the current portion of risk management contracts. Perpetual uses net debt as an alternative measure of outstanding debt. Management considers net debt and adjusted working capital as important measures in assessing the liquidity of the Company. 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 includes the carrying value of net bank debt, the undiscounted portion of the other liability, the principal amount of the second lien term loan (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.

Previously, net debt was calculated using the current balance of the other liability. As of March 31, 2022, net debt has been computed using the undiscounted value of the other liability. The current determination of net debt is reflective of the measures used by Management to monitor its liquidity in light of operating and capital budgeting decisions. Net debt is not a standardized measure and therefore may not be comparable to similar measures presented by other entities.

Net working capital: Net working capital deficiency or surplus 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, Term Loan, current portion of royalty obligations, current portion of lease liabilities, and current portion of decommissioning obligations.

The following table reconciles adjusted working capital and net debt as reported in the Company's statements of financial position:

	As at March 31, 2022	As at December 31, 2021
Cash and cash equivalents	-	1,090
Accounts and accrued receivable	13,457	11,671
Prepaid expenses and deposits	591	910
Marketable securities	7,056	2,409
Accounts payable and accrued liabilities	(17,691)	(32,223)
Adjusted working capital surplus (deficiency) ⁽¹⁾	3,413	(16,143)
Bank indebtedness	(9,553)	(2,487)
Term loan (principal)	(2,671)	(2,671)
Other liability (undiscounted amount)	(3,404)	(1,387)
Senior notes (principal)	(36,583)	(36,583)
Net debt	(48,798)	(59,270)

⁽¹⁾ Alternative calculation of current assets less current liabilities adjusted for the removal of the current portion of risk management contracts.

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 and regulatory requirements. 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 March 31,	
<i>(\$ thousands, except per share and per boe amounts)</i>	2022	2021
Net cash flows from operating activities	6,272	1,682
Change in non-cash working capital	8,510	(150)
Decommissioning obligations settled (cash)	(665)	115
Oil and natural gas revenue in-kind	-	1,133
Payments of gas over bitumen royalty financing	-	(236)
Adjusted funds flow	14,117	2,544
Adjusted funds flow per share	0.22	0.04
Adjusted funds flow per boe	22.99	5.42

Available Liquidity: Available Liquidity is defined as Perpetual's Credit Facility 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.

Enterprise value: Enterprise value is equal to net debt plus the market value of issued equity, and is used by management to analyze leverage. Enterprise value is calculated by multiplying the current shares outstanding by the market price at the end of the period and then adjusting it by the net debt. The Company considers enterprise value as an important measure as it normalizes the market value of the Company's shares for its capital structure.

Non-GAAP Financial Ratios

Perpetual calculates certain non-GAAP measures per boe as the measure divided by weighted average daily production. Management believes that per boe ratios are a key industry performance measure of operational efficiency and one that provides investors with information that is also commonly presented by other crude oil and natural gas producers. Perpetual also calculates certain non-GAAP measures per share as the measure divided by outstanding common shares.

Net debt to adjusted funds flow ratio: Net debt to adjusted funds flow ratios are calculated on a trailing twelve-month basis.

Adjusted funds flow per share: Adjusted funds flow ratios are calculated on a per share as the measure divided by basic shares outstanding.

Supplementary Financial Measures

"Average realized price" is comprised of total commodity sales from production, as determined in accordance with IFRS, divided by the Company's total sales production on a boe basis.

"Realized NGL price" is comprised of NGL commodity sales from production, as determined in accordance with IFRS, divided by the Company's NGL sales production.

"Realized oil price" is comprised of oil commodity sales from production, as determined in accordance with IFRS, divided by the Company's oil sales production.

"Realized natural gas price" is comprised of natural gas commodity sales from production, as determined in accordance with IFRS, divided by the Company's natural gas sales production.

"Depletion and depreciation expense per boe" is comprised of DD&A expense, as determined in accordance with IFRS, divided by the Company's total sales production.

"G&A expense per boe" is comprised of G&A expense, as determined in accordance with IFRS, divided by the Company's total sales production.

"Operating expense per boe" is comprised of operating expense, as determined in accordance with IFRS, divided by the Company's total sales production.

"Realized gain or loss on risk management contract per boe" is comprised of realized gain on risk management contracts, as determined in accordance with IFRS, divided by the Company's total sales production.

"Transportation expense per boe" is comprised of operating expense, as determined in accordance with IFRS, divided by the Company's total sales production.

"Royalties as a percentage of revenue" is comprised of royalties, as determined in accordance with IFRS, divided by oil and natural gas revenue from sales production as determined in accordance with IFRS.

"Royalties per boe" is comprised of royalties, as determined in accordance with IFRS, divided by the Company's total sales production.

"Market value of shares" is comprised of common shares outstanding multiplied by the market price of shares.

"Adjusted funds flow per share" is comprised of adjusted funds flow divided by the Company's shares outstanding.

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, 2021.

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 January 1, 2022 and ended March 31, 2022 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

FORWARD-LOOKING INFORMATION AND STATEMENTS

Certain information in this MD&A, including management's assessment of future plans and operations, and including the information contained under the heading "2022 Outlook" 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: future capital expenditure and production forecasts and the anticipated sources of funds to be used for capital spending; expectations as to drilling activity plans in various areas and the benefits to be derived from such drilling including the production growth and expectations respecting Perpetual's future exploration, development and drilling activities; the focus on waterflood optimization and battery consolidation projects as well as shallow gas recompletions and abandonment and reclamation activities in the Mannville property; the focus on ESG and planned abandonment and reclamation expenditures; and Perpetual's business plan.

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 MD&A. In particular and without limitation of the foregoing, material factors or assumptions on which the forward-looking information in this MD&A is based include: forecast commodity prices and other pricing assumptions; forecast production volumes based on business and market conditions; foreign exchange and interest rates; near-term pricing and continued volatility of the market; 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; the ability of Perpetual to obtain and retain qualified staff and equipment in a timely and cost-efficient manner, as applicable; the retention of key properties; forecast inflation, supply chain access 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 and Russia's invasion of Ukraine and related sanctions 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, 2021 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). 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.

GLOSSARY

The following is a list of abbreviations that may be used in this MD&A:

Measurement:

bbl	barrel
bbl/d	barrels per day
Mbbl	thousand barrels
MMbbl	million barrels
boe ⁽¹⁾	barrels of oil equivalent
boe/d ⁽¹⁾	barrels of oil equivalent per day
Mboe ⁽¹⁾	thousands of barrels of oil equivalent
MMboe ⁽¹⁾	millions of barrels of oil equivalent
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
MMcf	million cubic feet
MMcf/d	million cubic feet per day
MMBtu	million British thermal units
GJ	gigajoule

Volume Conversions:

Barrel of oil equivalent ("boe") may be misleading, particularly if used in isolation. In accordance with National Instrument 51-101 ("NI 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.

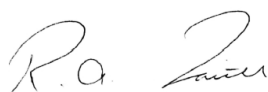
Financial and Business Environment:

AECO	Alberta Energy Company
DD&A	Depletion, depreciation and amortization
E&E	Exploration and evaluation
GAAP	Generally accepted accounting principles
G&A	General and administrative
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
NGLs	Natural gas liquids
NYMEX	New York Mercantile Exchange
PP&E	Property, plant and equipment
TSX	Toronto Stock Exchange
WTI	West Texas Intermediate

PERPETUAL ENERGY INC.
Condensed Interim Consolidated Statements of Financial Position

As at	March 31, 2022	December 31, 2021
<i>(Cdn\$ thousands unaudited)</i>		
Assets		
Current assets		
Cash	\$ —	\$ 1,090
Accounts receivable	13,457	11,671
Marketable securities (note 3)	7,056	2,409
Prepaid expenses and deposits	591	910
Risk management contracts (note 19)	45	682
	21,149	16,762
Property, plant and equipment (note 4)	158,269	153,620
Exploration and evaluation (note 5)	7,168	7,329
Right-of-use assets (note 6)	1,035	1,140
Total assets	\$ 187,621	\$ 178,851
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 17,691	\$ 32,223
Other liability (note 10)	63	63
Risk management contracts (note 19)	10,678	321
Royalty obligations (note 12)	4,899	4,697
Lease liabilities (note 13)	770	778
Decommissioning obligations (note 14)	1,667	1,327
	35,768	39,409
Term loan (note 9)	2,478	2,469
Revolving bank debt (note 8)	9,553	2,487
Other liability (note 10)	2,825	1,324
Senior notes (note 11)	34,486	34,189
Lease liabilities (note 13)	1,163	1,324
Decommissioning obligations (note 14)	28,205	31,600
Total liabilities	114,478	112,802
Equity		
Share capital (note 15)	94,501	94,809
Contributed surplus	45,971	45,731
Deficit	(67,329)	(74,491)
Total equity	73,143	66,049
Total liabilities and equity	\$ 187,621	\$ 178,851
Contingencies (note 7)		

See accompanying notes to the condensed interim consolidated financial statements.



Robert A. Maitland
Director



Geoffrey C. Merritt
Director

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

	Three months ended March 31,	
	2022	2021
<i>(Cdn\$ thousands, except per share amounts, unaudited)</i>		
Revenue		
Oil and natural gas (note 17)	\$ 24,953	\$ 11,536
Royalties	(3,242)	(2,131)
	21,711	9,405
Unrealized gain (loss) risk management contracts (note 19)	(10,994)	436
Realized gain (loss) risk management contracts (note 19)	280	(1,374)
Gas over bitumen royalty credit	—	238
Other income (note 14)	20	168
	11,017	8,873
Expenses		
Production and operating	3,659	3,286
Transportation	692	690
Exploration and evaluation (note 5)	18	20
General and administrative (note 4a)	2,079	2,055
Share-based payments (note 16)	614	480
Depletion and depreciation (note 4 and 6)	4,018	2,986
Impairment reversal (note 4b)	(7,400)	—
Net income (loss) from operating activities	7,337	(644)
Finance expense (note 18)	(4,799)	(2,062)
Change in fair value of marketable securities (note 3)	4,624	—
Net income (loss) and comprehensive income (loss)	7,162	(2,706)
Net income (loss) per share (note 15f)		
Basic	\$ 0.11	\$ (0.04)
Diluted	\$ 0.10	\$ (0.04)

See accompanying notes to the condensed interim consolidated financial statements.

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

	Share capital (thousands)	Share capital (\$thousands)	Contributed surplus	Deficit	Total equity
<i>(Cdn\$ thousands unaudited)</i>					
Balance at December 31, 2021	63,567	\$ 94,809	\$ 45,731	\$ (74,491)	\$ 66,049
Net income	—	—	—	7,162	7,162
Change in shares held in trust (note 15 and 16)	(436)	(308)	—	—	(308)
Share-based payments (note 16)	—	—	240	—	240
Balance at March 31, 2022	63,131	\$ 94,501	\$ 45,971	\$ (67,329)	\$ 73,143

	Share capital (thousands)	Share capital (\$thousands)	Contributed surplus	Deficit	Total equity (deficiency)
<i>(Cdn\$ thousands unaudited)</i>					
Balance at December 31, 2020	61,305	\$ 97,333	\$ 45,217	\$ (155,612)	\$ (13,062)
Net loss	—	—	—	(2,706)	(2,706)
Common shares issued (note 15 and 16)	1,225	283	(53)	—	230
Share-based payments (note 16)	—	—	105	—	105
Balance at March 31, 2021	62,530	\$ 97,616	\$ 45,269	\$ (158,318)	\$ (15,433)

See accompanying notes to the condensed interim consolidated financial statements.

PERPETUAL ENERGY INC.
Condensed Interim Consolidated Statements of Cash Flows

Three months ended March 31,
2022 2021

(Cdn\$ thousands, unaudited)

Cash flows from operating activities

Net income (loss)	\$	7,162	\$	(2,706)
Adjustments to add (deduct) non-cash items:				
Other income (note 14)		(20)		(168)
Depletion and depreciation (note 4 and 6)		4,018		2,986
Share-based payments (note 16)		240		105
Unrealized (gain) loss risk management contracts (note 19)		10,994		(436)
Change in fair value of marketable securities (note 3)		(4,624)		—
Finance expense (note 18)		3,747		2,999
Impairment reversal (note 4b)		(7,400)		—
Oil and natural gas revenue in-kind (note 12)		—		(1,133)
Decommissioning obligations settled (note 14)		665		(115)
Change in non-cash working capital		(8,510)		150
Net cash flows from operating activities		6,272		1,682

Cash flows from (used in) financing activities

Change in revolving bank debt, net of issue costs (note 8)		6,858		(329)
Change in senior notes, net of issue costs (note 11)		—		(219)
Payments of lease liabilities (note 13)		(169)		(145)
Payments of royalties (note 12)		(1,393)		(236)
Shares purchased and held in trust		(308)		—
Common shares issues, net of issue costs		—		230
Net cash flows from (used in) financing activities		4,988		(699)

Cash flows used in investing activities

Capital expenditures		(4,837)		(3)
Acquisitions (note 4)		—		(625)
Net proceeds from dispositions (note 4(a))		—		156
Purchase of marketable securities (note 3)		(23)		—
Change in non-cash working capital		(7,490)		(511)
Net cash flows used in investing activities		(12,350)		(983)
Change in cash and cash equivalents		(1,090)		—
Cash and cash equivalents, beginning of period		1,090		—
Cash and cash equivalents, end of period	\$	—	\$	—

See accompanying notes to the condensed interim consolidated financial statements.

PERPETUAL ENERGY INC.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the three months ended March 31, 2022

(All tabular amounts are in Cdn\$ thousands, except where otherwise noted)

1. REPORTING ENTITY

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

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

The condensed interim consolidated financial statements of the Company as at and for the three months ended March 31, 2022 are comprised of the accounts of Perpetual Energy Inc. and its wholly owned subsidiaries: Perpetual Operating Corp., Perpetual Energy Partnership, and Perpetual Operating Trust, which are incorporated in Alberta.

2. BASIS OF PREPARATION

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and do not include all of the information required for full annual financial statements. These condensed interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements as at and for the year ended December 31, 2021 which were prepared in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The accounting policies, basis of measurement, critical accounting judgements and significant estimates used to prepare the annual consolidated financial statements as at and for the year ended December 31, 2021 have been applied in the preparation of these condensed interim consolidated financial statements.

These condensed interim consolidated financial statements of the Company were approved and authorized for issue by the Board of Directors on May 4, 2022.

3. MARKETABLE SECURITIES

	Amount (\$thousands)
December 31, 2020	\$ –
Plan of Arrangement Rubellite shares and warrants received (note 4)	9
Plan of Arrangement warrants exercised	118
AIMCo Bonus Shares received (note 9)	1,361
AIMCo Bonus Shares delivered (note 9)	(1,361)
Rubellite Share Purchase Warrants received ⁽¹⁾	2,000
Change in fair value of marketable securities	282
December 31, 2021	\$ 2,409
Purchase	23
Change in fair value of marketable securities	4,624
March 31, 2022	\$ 7,056

⁽¹⁾ The Company used the Black Scholes option pricing model to calculate the estimated fair value of the Rubellite Share Purchase Warrants at the date of grant using an expected volatility of 40%, risk-free interest rate of 1.2%, dividend yield of nil, contractual life of 5-years, share price at grant date of \$2.00 and exercise price of \$3.00. The fair value was \$0.50 per Rubellite Share Purchase Warrant.

On September 3, 2021, the Plan of Arrangement involving Perpetual Energy Inc, the shareholders of Perpetual, and Rubellite Energy Inc. ("Rubellite") (the "Arrangement") 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 on September 3, 2021. Under the terms of the Arrangement, for every 46 common shares of Perpetual held, shareholders received 1 common share of Rubellite and 12 warrants to purchase Rubellite common shares ("Rubellite Warrants"). Each Rubellite Warrant entitled the holder to subscribe for one Rubellite common share at a price of \$2.00 per share until October 4, 2021. Through its employee trust, Perpetual received 4,500 Rubellite common shares and 54,000 Rubellite Warrants as part of the Plan of Arrangement. In 2021, Perpetual exercised its 54,000 Rubellite Warrants for \$0.1 million in exchange for 54,000 Rubellite shares. As at March 31, 2022 the Company holds 58,500 Rubellite shares valued at \$0.2 million using the Rubellite common share price of \$3.82 per share.

Under the terms of the Plan of Arrangement, Perpetual also received 4.0 million Rubellite Share Purchase Warrants that were initially valued at \$2.0 million when received and revalued to \$6.8 million as at March 31, 2022. The Company used the Black Scholes pricing model to calculate the estimated fair value of the Rubellite Share Purchase Warrants.

The following assumptions were used to arrive at the estimate of fair value at period end:

	March 31, 2022
Dividend yield (%)	—
Expected volatility (%)	40%
Risk-free interest rate (%)	2.37%
Contractual life (years)	4.4
Share price	\$3.82
Exercise price	\$3.00
Fair value	\$1.70

In 2021, upon completion of the Arrangement, Perpetual executed its agreement with its Term Loan lender for the settlement of principal and all interest owing on the Term Loan ("Second Line Loan Settlement"). As part of the Second Lien Loan Settlement Perpetual delivered the AIMCo Bonus Shares at a value of \$1.4 million.

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

	Oil and Gas Properties	Corporate Assets	Total
Cost			
December 31, 2020	\$ 564,959	\$ 7,652	\$ 572,611
Additions	19,060	2	19,062
Acquisitions	1,325	—	1,325
Change in decommissioning obligations related to PP&E (note 14)	2,689	—	2,689
Transfers from exploration and evaluation (note 5)	2,943	—	2,943
Dispositions (a)	(16,442)	—	(16,442)
December 31, 2021	\$ 574,534	\$ 7,654	\$ 582,188
Additions	4,830	7	4,837
Change in decommissioning obligations related to PP&E (note 14)	(3,836)	—	(3,836)
Transfers from exploration and evaluation (note 5)	161	—	161
March 31, 2022	\$ 575,689	\$ 7,661	\$ 583,350
Accumulated depletion and depreciation			
December 31, 2020	\$ (441,059)	\$ (7,567)	\$ (448,626)
Depletion and depreciation	(13,500)	(67)	(13,567)
Dispositions (a)	3,025	—	3,025
Impairment reversal (b)	30,600	—	30,600
December 31, 2021	\$ (420,934)	\$ (7,634)	\$ (428,568)
Depletion and depreciation	(3,913)	—	(3,913)
Impairment reversal (b)	7,400	—	7,400
March 31, 2022	\$ (417,447)	\$ (7,634)	\$ (425,081)
Carrying amount			
December 31, 2021	\$ 153,600	\$ 20	\$ 153,620
March 31, 2022	\$ 158,242	\$ 27	\$ 158,269

For the period ended March 31, 2022, \$0.6 million (March 31, 2021 – \$0.02 million) of direct general and administrative expenses were capitalized. Future development costs for the period ended March 31, 2022 of \$71.5 million (December 31, 2021 – \$75.3 million) were included in the depletion calculation.

a) Clearwater Assets Disposition

At the time of the Arrangement, Rubellite exchanged 1.4 million Rubellite common shares and 16.7 million arrangement warrants with Perpetual shareholders for 8.2 million Perpetual common shares valued at \$2.8 million. These 8.2 million Perpetual common shares held by Rubellite were delivered to Perpetual as part of the purchase consideration.

The disposition of all of Perpetual's Clearwater lands, wells, roads and facilities in northeast Alberta (the "Clearwater Assets"), working capital and associated cash, and decommissioning obligations to Rubellite was accounted for as being effective for consideration of \$65.5 million, including \$53.6 million in promissory notes, paid in cash on October 5, 2021, and the assumption of \$5.8 million of promissory notes due to 1974918 Alberta Ltd. (a company controlled by the Company's CEO ("CEO") ("197Co"), the issuance of 680,485 Rubellite common shares valued at \$1.3 million ("AIMCo Bonus Shares"), the return of 8.2 million Perpetual common shares exchanged in the Arrangement 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.

Perpetual also entered into a Management and Operating Services Agreement ("MSA") with Rubellite whereby Perpetual receives payment for certain technical and administrative services provided to Rubellite on a cost recovery basis. For the three months ended March 31, 2022, the amount of general and administrative costs billed to Rubellite was \$0.3 million. As a result of various other transactions between the parties under the MSA, at March 31, 2022, the Company recorded an accounts receivable of \$1.8 million owing from Rubellite.

The consideration received, and calculation of the gain recorded on disposition is summarized below:

<i>(\$ thousands)</i>	
Proceeds from disposition (i)	65,514
Transaction costs and closing adjustments (ii)	(583)
Carrying amount of assets disposed (iii)	(19,085)
Carrying amount of net working capital disposed, including cash (iv)	823
Carrying amount of decommissioning obligations disposed (v)	853
Gain on disposition	47,522

- i) Total consideration \$65.5 million of consideration as outlined below:

<i>(\$ thousands)</i>	
Promissory note issued by Rubellite to Perpetual ⁽¹⁾	53,600
PEI-197Co note assumed by Rubellite ⁽²⁾	5,773
AIMCo Bonus Shares ⁽³⁾	1,361
8.2 million Perpetual common shares ⁽⁴⁾	2,780
Rubellite Share Purchase Warrants ⁽⁵⁾	2,000
Total consideration received	\$ 65,514

- ⁽¹⁾ Demand promissory note, secured by the Clearwater Assets, and settled on October 5, 2021.
- ⁽²⁾ On July 15, 2021, Perpetual exercised an option to acquire certain E&E lands located at Figure Lake in exchange for a demand promissory note secured by the Figure Lake lands in the amount of \$5.8 million owing to 197Co (note 5). The acquired Figure Lake lands comprised part of the Clearwater Assets sold to Rubellite. The secured promissory note obligation owing to 197Co was assigned by Perpetual to Rubellite as part of the total consideration.
- ⁽³⁾ Rubellite shares issued to Perpetual on September 3, 2021 valued at \$1.4 million.
- ⁽⁴⁾ Rubellite returned to Perpetual 8.2 million Perpetual common shares valued at \$2.8 million. Pursuant to the Plan of Arrangement, Perpetual shareholders exchanged 8.2 million Perpetual common shares with Rubellite for Rubellite common shares and warrants. The Perpetual shares received were subsequently cancelled.
- ⁽⁵⁾ Represents the estimated value of 4.0 million Rubellite Share Purchase Warrants at \$3.00 per share exercise price (note 3) valued at \$2.0 million.

- ii) Transaction costs and closing adjustments \$0.6 million of transaction costs and closing adjustments.
- iii) Carrying amount of assets disposed \$19.1 million of assets including oil and gas properties (\$16.1 million of costs less \$2.8 million of accumulated depletion) and exploration and evaluation assets (\$5.8 million).
- iv) Carrying amount of net working capital disposed \$0.8 million of net working capital including cash (\$4.1 million), accounts receivable (\$0.7 million), and accounts payable (\$5.6 million).
- v) Carrying amount of decommissioning obligations disposed \$0.9 million of decommissioning obligations associated with oil and gas properties disposed.

b) Cash-generating units and impairment and impairment reversals

The Company identified an indicator of impairment reversal at March 31, 2022 for the Eastern Alberta cash generating unit and performed an impairment reversal test to estimate the recoverable amount of the CGU. It was determined the recoverable amount of the Eastern Alberta CGU exceeded the CGU's carrying value, resulting in all remaining Eastern Alberta impairment, net of depletion, of \$7.4 million being reversed and included in net income. No historical impairments remain for the Eastern Alberta CGU.

At March 31, 2022, indicators of impairment reversal for the Eastern Alberta CGU were primarily a result of increased forecasted benchmark commodity prices which positively impacted operating cash flows. There were no internal or external indicators of impairment for the West Central CGU as at March 31, 2022. The estimated recoverable amount of the Eastern Alberta CGU was determined using the value-in-use methodology, based on the estimates of proved and probable oil and gas reserves and the related cash flows at March 31, 2022, as updated by internal reserve evaluators, along with forecasted oil and gas commodity prices based on an average of three independent third party reserve evaluators, and an estimate of market discount rates between 10% and 20% to consider risks specific to the Eastern Alberta CGU.

Forecasted oil and gas commodity prices based on an average of three independent third party reserve evaluators were used in the VIU calculation as at March 31, 2022:

Year	West Texas Intermediate ("WTI") Crude Oil (US\$/bbl)	USD/CDN exchange rate (US\$/Cdn\$)	Alberta Heavy Crude Oil (Cdn\$/bbl)	AECO Gas (Cdn\$/MMBtu)	NYMEX Gas (Cdn\$/MMBtu)
2022	94.53	1.25	95.13	5.13	5.48
2023	84.15	1.25	77.65	4.28	4.44
2024	77.51	1.25	70.24	3.69	3.75
2025	71.63	1.25	64.45	3.45	3.56
2026	73.06	1.25	65.74	3.52	3.63
2027	74.53	1.25	67.06	3.59	3.70
2028	76.02	1.25	68.40	3.66	3.77
2029	77.54	1.25	69.77	3.73	3.85
2030	79.09	1.25	71.16	3.81	3.93
2031	80.67	1.25	72.58	3.88	4.00
2032	82.28	1.25	74.04	3.96	4.08
2033	83.93	1.25	75.52	4.04	4.17
2034	85.61	1.25	77.03	4.12	4.25
2035	87.32	1.25	78.57	4.20	4.33
2036 ⁽¹⁾	89.06	1.25	80.14	4.29	4.42

⁽¹⁾ Forecasted oil and gas commodity prices escalate 2.0% per year thereafter.

As at March 31, 2022, if discount rates used in the calculation of impairment reversal changed by 1% with all other variables held constant, the impairment reversal would be unchanged. As at March 31, 2022, if commodity price estimates changed by 5% with all other variables held constant, the impairment reversal would be unchanged.

During the year ended December 31, 2021, the Company reversed \$30.6 million of historical impairments, net of depletion.

The Company identified an indicator of impairment reversal at June 30, 2021 for the West Central and Eastern Alberta cash generating units and additionally at December 31, 2021 for the Eastern Alberta CGU and performed impairment reversal tests to estimate the recoverable amount of each CGU. It was determined the recoverable amount of the West Central and Eastern Alberta CGUs exceeded each CGU's carrying value, resulting in all previous West Central impairment, net of depletion, of \$22.6 million and Eastern Alberta impairment of \$8.0 million, respectively, being reversed. No historical impairments remain for the West Central CGU.

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

	March 31, 2022	December 31, 2021
Balance, beginning of period	\$ 7,329	\$ 10,272
Acquisitions	—	5,773
Dispositions	—	(5,773)
Transfers to property, plant and equipment (note 4)	(161)	(2,943)
Balance, end of period	\$ 7,168	\$ 7,329

During the three months ended March 31, 2022, a nominal amount (Q1 2021 – a nominal amount) in costs were charged directly to E&E expense in the condensed interim consolidated statements of income (loss) and comprehensive income (loss).

On July 15, 2021, Perpetual exercised an option to acquire lands located at Figure Lake in exchange for a demand promissory note secured by the Figure Lake lands in the amount of \$5.8 million owing to 197Co. The acquired Figure Lake lands comprised part of the Clearwater Assets sold to Rubellite. The secured promissory note obligation owing to 197Co was assigned by Perpetual to Rubellite as part of the disposition of the Clearwater Assets.

Impairment of E&E assets

E&E assets are tested for impairment both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to oil and gas properties in PP&E.

At March 31, 2022, the Company transferred Mannville undeveloped land value to PP&E, at a value of \$0.2 million, which was equal to the book value in E&E. As a result of the transfer and the impairment test required at transfer, there were no impairments recorded to E&E in the first quarter of 2022.

At March 31, 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 quarter of 2021.

6. RIGHT-OF-USE ASSETS

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

	Head office	Vehicles	Other leases	Total
Cost				
January 1, 2021	\$ 1,591	\$ 389	\$ 247	\$ 2,227
Additions	–	221	–	221
December 31, 2021	\$ 1,591	\$ 610	\$ 247	\$ 2,448
March 31, 2022	\$ 1,591	\$ 610	\$ 247	\$ 2,448
Accumulated depreciation				
January 1, 2021	\$ (497)	\$ (215)	\$ (143)	\$ (855)
Depreciation	(258)	(134)	(61)	(453)
December 31, 2021	\$ (755)	\$ (349)	\$ (204)	\$ (1,308)
Depreciation	(64)	(34)	(7)	(105)
March 31, 2022	\$ (819)	\$ (383)	\$ (211)	\$ (1,413)
Carrying amount				
December 31, 2021	\$ 836	\$ 261	\$ 43	\$ 1,140
March 31, 2022	\$ 772	\$ 227	\$ 36	\$ 1,035

7. CONTINGENCIES

On August 3, 2018, the Company received a Statement of Claim that was filed by PricewaterhouseCoopers Inc. LIT ("PwC"), in its capacity as trustee in bankruptcy (the "Trustee") of Sequoia Resources Corp. ("Sequoia"), with the Alberta Court of Queen's Bench (the "Court"), against Perpetual (the "Sequoia Litigation"). The claim relates to a six-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 (the "Second Summary Dismissal Application"). 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 appealed this decision, and the Court of Appeal hearing took place on February 10, 2022, with the panel reserving judgement. On March 25, 2022, the Court of Appeal issued their judgement with respect to this matter and allowed PwC's appeal on the basis that the Court of Queen's Bench erred in law in its handling of the end-of-life obligations and that based on the record, it could not be concluded the error was without consequence, and that the Court of Queen's Bench also erred in agreeing to hear the Second Summary Dismissal Application. On this basis, the BIA Claim has been directed to trial.

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.

8. REVOLVING BANK DEBT

As at March 31, 2022, the Company's Credit Facility had a Borrowing Limit of \$17.0 million (December 31, 2021 – \$17.0 million) under which \$9.6 million was drawn (December 31, 2021 – \$2.5 million) and \$1.0 million of letters of credit had been issued (December 31, 2021 – \$1.0 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 March 31, 2022 was 5.9%. For the period ended March 31, 2022 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.

During the third quarter of 2021, Perpetual entered into an agreement with its syndicate of lenders to extend its Credit Facility maturity 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 all outstanding advances will be repayable on May 31, 2023.

During the fourth quarter of 2021, the Credit Facility borrowing limit was reduced from \$20.0 million to \$17.0 million and on December 17, 2021 the semi-annual borrowing base redetermination of the Company's Credit Facility was completed and the existing \$17.0 million borrowing limit and term of the credit facility was maintained. The next borrowing limit redetermination is scheduled to occur on or before May 31, 2022.

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 March 31, 2022, the Credit Facility was not subject to any financial covenants and the Company was in compliance with all customary non-financial covenants.

9. TERM LOAN

	Maturity date	Interest rate	March 31, 2022		December 31, 2021	
			Principal	Carrying Amount	Principal	Carrying amount
Term loan	December 31, 2024	8.1%	\$ 2,671	\$ 2,478	\$ 2,671	\$ 2,469

During the third quarter of 2021, Perpetual executed its agreement with its Term Loan lender for the settlement of principal and all interest owing on the Term Loan. Perpetual substantively modified the previous Term Loan with Alberta Investment Management Corporation ("AIMCo") in exchange for the payment of approximately \$38.5 million in cash, 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 (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 initially valued at \$0.2 million (the "Second Lien Loan Settlement") (note 10). 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. Perpetual has the ability to repay the Term Loan at any time without any repayment penalty. All amounts related to the Second Lien Loan Settlement were paid on October 5, 2021.

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

At March 31, 2022, the Term Loan was not subject to any financial covenants and the Company was in compliance with all customary non-financial covenants.

10. OTHER LIABILITY

Pursuant to the terms of the Second Lien Loan Settlement, Perpetual was committed to pay up to \$4.5 million in potential contingent payments in the event that the Company's annual average realized crude oil and natural gas prices exceed certain thresholds in each of the annual periods ended December 31, 2023. The payment for 2021 was capped at \$1.3 million; the payment for 2022 is capped at \$1.3 million; and the payment for 2023 is capped at \$1.9 million. Of the 2021 payment cap, only \$0.2 million was earned. This leaves a maximum remaining total obligation to be earned in 2022 and 2023 of \$3.2 million. At March 31, 2022, the Company estimated the maximum total obligation owing to be \$3.4 million, and after discounting the fair value of the contingent liability was recorded as \$2.9 million. The change in fair value of this liability was recorded as a non-cash finance expense in the statements of income (loss) and comprehensive income (loss).

The table below summarizes the change in fair value of the contingent payments:

	March 31, 2022	December 31, 2021
Balance, beginning of period	\$ 1,387	\$ –
Initial recognition	–	228
Change in fair value	1,501	1,159
Balance, end of period	\$ 2,888	\$ 1,387

	March 31, 2022	December 31, 2021
Current	\$ 63	\$ 63
Non-current	2,825	1,324
Total other liability	\$ 2,888	\$ 1,387

The Company has designated the other liability as financial liabilities which are measured at fair value through profit and loss, estimated by discounting potential contingent payments. For the three months ended March 31, 2022, an unrealized loss of \$1.5 million (Q1 2021 – nil) is included in non-cash finance expense related to the change in fair value of other liability (note 18).

At March 31, 2022, if forecasted natural gas commodity prices changed by \$0.25 per GJ with all other variables held constant, the fair value of the total other liability and net income for the period would change by nil as the maximum remaining obligation has been met and this movement would not reduce the remaining obligation to less than its maximum. If forecasted crude oil commodity prices changed by \$5.00 per bbl with all other variables held constant, the fair value of the other liability and net income for the period would also change by nil for the same reason.

11. SENIOR NOTES

	Maturity date	Interest rate	March 31, 2022		December 31, 2021	
			Principal	Carrying Amount	Principal	Carrying amount
Senior notes	January 23, 2025	8.75%	\$ 36,583	\$ 34,486	\$ 36,583	\$ 34,189

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"). In 2021, the Company elected to pay the semi-annual interest payments of \$1.5 million by making PIK Interest Payments, increasing the principal amount to \$36.6 million.

The Company satisfied the January 23, 2022 semi-annual interest payment of \$1.6 million by making a cash payment.

At March 31, 2022, the senior notes are recorded at the present value of future cash flows, net of \$2.1 million in issue and principal discount costs which are amortized over the remaining term using a weighted average effective interest rate of 13.7%

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 March 31, 2022, 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 \$15.9 million of the 2025 Senior Notes outstanding. An entity that is associated with the Company's CEO, and entities associated with other Directors of the Company hold an additional \$10.3 million and \$0.8 million of the 2025 Senior Notes outstanding, respectively.

12. ROYALTY OBLIGATIONS

	Retained East Edson royalty obligation	Gas over bitumen royalty financing	Total
December 31, 2020	\$ 5,714	\$ 435	\$ 6,149
Cash payments ⁽¹⁾	–	(558)	(558)
Non-cash payments in-kind	(4,995)	–	(4,995)
Change in fair value (note 18)	3,978	123	4,101
December 31, 2021	4,697	–	4,697
Cash payments	(1,393)	–	(1,393)
Change in fair value (note 18)	1,595	–	1,595
March 31, 2022	\$ 4,899	\$ –	\$ 4,899

⁽¹⁾ The final payment related to the gas over bitumen royalty financing was made on July 25, 2021.

The retained East Edson royalty obligation formed part of the net consideration received by Perpetual following the disposition transaction in 2020, whereby Perpetual agreed to retain the purchaser's 50% working interest in the existing gross overriding royalty obligation on the property, equivalent to 2.8 MMcf/d of natural gas and associated NGL production for the period April 1, 2020 to December 31, 2022. Prior to November 1, 2021, the retained East Edson royalty obligation was paid in-kind, and settled through non-cash delivery of contractual natural gas and NGL volumes to the royalty holder. As of November 1, 2021, the royalty obligation is settled through payment in cash.

The Company has designated the retained East Edson royalty obligation and the gas over bitumen royalty financing as financial liabilities which are measured at fair value through profit and loss, estimated by discounting future royalty obligations based on forecasted natural gas and NGL commodity prices multiplied by the royalty obligation volumes. For the three months ended March 31, 2022, an unrealized loss of \$1.6 million (Q1 2021 – unrealized loss of \$1.1 million) is included in non-cash finance expense related to the change in fair value of total royalty obligations (note 18).

As at March 31, 2022, if forecasted natural gas commodity prices changed by \$0.25 per GJ with all other variables held constant, the fair value of the total royalty obligations and net income for the period would change by \$0.2 million.

13. LEASE LIABILITIES

	March 31, 2022	December 31, 2021
Balance, beginning of period	\$ 2,102	\$ 2,501
Additions	–	221
Interest on lease liabilities (note 18)	32	148
Payments	(201)	(768)
Total lease liabilities	\$ 1,933	\$ 2,102
Current	\$ 770	\$ 778
Non-current	1,163	1,324
Total lease liabilities	\$ 1,933	\$ 2,102

Lease terms are negotiated on an individual basis and contain a wide range of terms and conditions. Incremental borrowing rates used to measure the present value of the future lease payments at March 31, 2022 were between 4.3% and 6.6% (2021 – 4.3% and 6.6%).

14. DECOMMISSIONING OBLIGATIONS

The following significant assumptions were used to estimate decommissioning obligations:

	March 31, 2022	December 31, 2021
Obligations incurred, including acquisitions	\$ 161	\$ 965
Change in risk free interest rate	(3,293)	(1,309)
Change in estimates	(704)	3,033
Change in decommissioning obligations related to PP&E (note 4)	(3,836)	2,689
Obligations settled (cash)	665	(1,760)
Obligations settled ⁽¹⁾ (non-cash)	(20)	(704)
Obligations disposed (note 4(a)(v))	–	(853)
Accretion (note 18)	136	531
Change in decommissioning obligations	(3,055)	(97)
Balance, beginning of period	32,927	33,024
Balance, end of period	\$ 29,872	\$ 32,927
Decommissioning obligations – current	\$ 1,667	\$ 1,327
Decommissioning obligations – non-current	28,205	31,600
Total decommissioning obligations	\$ 29,872	\$ 32,927

⁽¹⁾ During the three months ended March 31, 2022, obligations settled (non-cash) of a nominal amount (Q1 2021 – \$0.2 million) were funded by payments made directly to Perpetual's service providers from the Alberta Site Rehabilitation Program. These amounts have been recorded as other income.

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

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

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

	March 31, 2022	December 31, 2021
Undiscounted obligations	\$ 33,057	\$ 32,254
Average risk-free rate	2.4%	1.7%
Inflation rate	1.8%	1.8%
Expected timing of settling obligations	1 to 25 years	1 to 25 years

15. SHARE CAPITAL

	March 31, 2022		December 31, 2021	
	Shares	Amount	Shares	Amount
	(thousands)	(\$thousands)	(thousands)	(\$thousands)
Balance, beginning of period	63,567	\$ 94,809	61,305	\$ 97,333
Issued pursuant to share-based payment plans	—	—	1,828	243
Shares held in trust purchased (b)	(436)	(308)	(542)	(191)
Shares held in trust issued (b)	—	—	566	168
Treasury shares issued (c)	—	—	1,000	230
Shares held in trust sold pursuant to the Plan of Arrangement (d)	—	—	189	9
Shares held in trust split pursuant to the Plan of Arrangement (d)	—	—	(189)	—
Common share split (d)	—	—	8,158	—
Common share cancellation (d)	—	—	(8,158)	(2,779)
Common share odd-lot consolidation (e)	—	—	(590)	(204)
Balance, end of period	63,131	\$ 94,501	63,567	\$ 94,809

a) Authorized

Authorized capital consists of an unlimited number of common shares.

b) Shares held in trust

The Company has compensation agreements in place with employees whereby they may be entitled to receive shares of the Company purchased on the open market by a trustee (note 16). Share capital is presented net of the number and cumulative purchase cost of shares held by the trustee that have not yet been issued to employees. As at March 31, 2022, 1.0 million shares were held in trust (December 31, 2021 – 0.5 million).

c) Treasury shares issued

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

d) Common share split and common share cancellation

As part of the Plan of Arrangement, 8.2 million Perpetual common shares were received by Rubellite from Perpetual shareholders in exchange for Rubellite common shares and warrants, and Perpetual split its shares by a ratio such that the number of Perpetual shares exchanged to Rubellite was equal to the number of shares split. On September 3, 2021, Perpetual received 8.2 million Perpetual common shares held by Rubellite as part of the consideration for the disposition of the Clearwater Assets and these shares were cancelled.

e) Common share odd-lot consolidation

Pursuant to steps in the Plan of Arrangement, Perpetual consolidated its common shares on the basis of 1,000 to 1 (the "Consolidation") and subsequently split the Common Shares on the same ratio. Shareholders who owned a number of common shares less than 1 subsequent to the consolidation and preceding the split (the "Consolidated Shareholders") were paid an amount in cash of \$0.3419 per pre consolidated common share, being the volume weighted average trading price of the common shares on the Toronto Stock Exchange for the 20-day period prior to the effective date. Based on the ratio, 590,000 Common Shares were cancelled as a result of the Consolidation and Perpetual paid an aggregate of \$0.2 million to the Consolidated Shareholders.

f) Per share information

	Three months ended March 31,	
	2022	2021
<i>(thousands, except per share amounts)</i>		
Net income (loss) – basic	\$ 7,162	\$ (2,706)
Effect of dilutive securities	—	—
Net income (loss) – diluted	\$ 7,162	\$ (2,706)
Weighted average shares		
Issued common shares	64,099	62,159
Effect of shares held in trust	(883)	(556)
Weighted average common shares outstanding – basic	63,216	61,603
Weighted average common shares outstanding – diluted ⁽¹⁾	74,348	61,603
Net income (loss) per share – basic	\$ 0.11	\$ (0.04)
Net income (loss) per share – diluted	\$ 0.10	\$ (0.04)

⁽¹⁾ For the three months ended March 31, 2022, 5.5 million potentially issuable common shares through the share-based compensation plans were excluded as they were not dilutive (Q1 2021 – 18.2 million).

16. SHARE-BASED PAYMENTS

The components of share-based payment expense are as follows:

	Three months ended March 31,	
	2022	2021
Share options	\$ 22	\$ 29
Performance share rights	439	413
Compensation awards	153	38
Share-based payments	\$ 614	\$ 480

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

	Compensation awards					
(thousands)	Deferred options	Deferred shares	Share options	Performance share rights ⁽¹⁾	Restricted rights	Total
December 31, 2020	5,057	2,401	5,397	3,420	–	16,275
Granted	2,448	1,367	1,258	1,715	1,436	8,224
Exercised for common shares	–	–	(398)	N/A	(1,428)	(1,826)
Exercised for shares held in trust	(198)	(161)	–	–	–	(359)
Exercised for restricted rights	(303)	(278)	–	(855)	–	(1,436)
Performance adjustment ⁽⁴⁾	–	–	–	(855)	–	(855)
Cancelled/forfeited	(1,090)	(151)	(455)	(360)	(8)	(2,064)
Expired	(438)	(20)	(1,725)	–	–	(2,183)
December 31, 2021	5,476	3,158	4,077	3,065	–	15,776
Granted ⁽²⁾⁽³⁾	38	66	35	718	–	857
March 31, 2022	5,514	3,224	4,112	3,783	–	16,633

⁽¹⁾ Certain performance share rights contain monetary awards that may be settled in cash, in common shares of the Company, or a combination thereof at the discretion of the Board of Directors, equal to the monetary amount at the time of vesting. These awards are accounted for as cash-settled share-based payments in which the fair value of the amounts payable under the plan are recognized incrementally as an expense over the vesting period, with a corresponding change in liabilities. As at March 31, 2022, \$0.6 million had been accrued pursuant to cash-settled share-based payment awards (December 31, 2021 – \$0.3 million).

⁽²⁾ Share options granted during the three months ended March 31, 2022 have an exercise price of \$0.92 and vest evenly over four years, with expiry occurring five years after issuance. The Company used the Black Scholes option pricing model to calculate the estimated fair value of the outstanding deferred options and share options at the date of grant. Expected volatility of 60% and forfeiture rates of 5% were used to value the share options.

⁽³⁾ During the three months ended March 31, 2022, 0.04 million deferred options, 0.1 million deferred shares, 0.04 million share options, and 0.7 million performance share rights, and were granted to Officers, Directors, and employees of the Company.

⁽⁴⁾ Performance share rights are subject to a performance multiplier of 0.5 to 2.0.

17. REVENUE

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

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

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

In the first quarter of 2022, the Company eliminated 10,000 MMBtu/d of fixed volume obligations for the period commencing November 1, 2022 and ending on March 31, 2023 and will receive payment of \$1.2 million over the term of the associated contract volumes. The amount was recognized as a realized gain on risk management contracts (note 19).

In the first quarter of 2021, the Company eliminated its remaining fixed volume obligations of 10,000 MMBtu/d for the period commencing April 1, 2021 and ending on October 31, 2021 in consideration for the payment of \$1.4 million over the term of the associated contract volumes. The amount was recognized as a realized loss on risk management contracts (note 19).

In the third quarter of 2021, the Company eliminated its remaining 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.

Market/Pricing Point	November 1, 2022 to March 31, 2023 Daily sales volume (MMBtu/d)	April 1, 2023 to October 31, 2024 Daily sales volume (MMBtu/d)
Malin	5,000	15,000
Dawn	15,000	15,000
Emerson	10,000	10,000
Total sales volume obligation	30,000	40,000

Subsequent to March 31, 2022, the Company eliminated 5,000 MMBtu/d of fixed volume obligations for the period commencing November 1, 2022 and ending March 31, 2023, and will receive payment of \$0.8 million over the term of the associated contract volumes.

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

	Three months ended March 31,	
	2022	2021
Oil and natural gas revenue		
Natural gas	\$ 15,929	\$ 6,022
Oil	5,861	4,032
NGL	3,163	1,482
Total oil and natural gas revenue	\$ 24,953	\$ 11,536

(3) For the three months ended March 31, 2022, natural gas revenue includes \$1.4 million cash revenue (Q1 2021 – \$1.1 million non-cash revenue taken in-kind) related to production used in the settlement of the retained East Edson royalty obligation (note 12).

Included in accounts receivable at March 31, 2022 is \$9.2 million of accrued oil and natural gas revenue related to March 2022 production (December 31, 2021 – \$7.0 million related to December 2021 production).

18. FINANCE EXPENSE

The components of finance expense are as follows:

	Three months ended March 31,	
	2022	2021
Cash finance expense		
Interest on revolving bank debt	\$ 162	\$ 276
Interest on term loan	54	–
Interest on 2025 Senior Notes ⁽¹⁾	804	–
Interest on 2022 Senior Notes ⁽²⁾	–	(1,253)
Interest on lease liabilities (note 13)	32	40
Total cash finance expense	\$ 1,052	\$ (937)
Non-cash finance expense		
Interest paid in-kind on term loan (note 9)	–	948
Interest paid in-kind on 2025 Senior Notes (note 11) ⁽²⁾	–	2,057
Gain on senior note maturity extension (note 11)	–	(1,591)
Amortization of debt issue costs	515	378
Accretion on decommissioning obligations (note 14)	136	98
Change in fair value of other liability (note 10)	1,501	–
Change in fair value of royalty obligations (note 12)	1,595	1,109
Total non-cash finance expense	\$ 3,747	\$ 2,999
Finance expenses recognized in net income (loss)	\$ 4,799	\$ 2,062

(1) The Company satisfied the January 23, 2022 semi-annual interest payment of \$1.6 million by making a cash payment.

(2) 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 Notes cash interest of \$1.3 million was reversed and replaced by \$1.3 million of 2025 Senior Note non-cash interest expense. The Company satisfied the semi-annual interest payment due July 23, 2021 by making a PIK Interest Payment and accrued \$0.8 million of non-cash interest expense for the three months ended March 31, 2021.

19. FINANCIAL RISK MANAGEMENT

Natural gas contracts

At March 31, 2022 the Company had entered into the following financial fixed price natural gas sales arrangements at AECO:

Term	Sold/bought	Volumes (GJ/d)	Average price (\$/GJ)	Fair Value (\$ thousands)
April 2022	Bought	5,000	4.22	41
April 2022	Sold	5,000	4.52	4
April 2022 – December 2022	Sold	2,500	3.57	(1,121)
April 2022 – September 2022	Sold	17,500	3.66	(4,401)
October 2022 – December 2022	Sold	5,000	4.53	(414)
January 2023 – December 2023	Sold	5,000	4.62	(431)

Natural gas contracts - sensitivity analysis

As March 31, 2022, if future natural gas prices changed by \$0.25 per GJ with all other variables held constant, net income for the period would change by \$1.2 million due to changes in the fair value of risk management contracts. Fair value sensitivity was based on published forward AECO prices.

Oil contracts

At March 31, 2022, the Company had entered the following financial fixed price oil sales arrangements which settle in CAD\$:

Term	Volumes (bbls/d)	Western Canadian Select ("WCS") (CAD\$/bbl)	Fair Value (\$ thousands)
April 2022 – June 2022	200	76.70	(833)
July 2022 – December 2022	200	70.80	(1,020)
April 2022 – December 2022	200	70.66	(2,006)

Term	Volumes (bbls/d)	WTI Fixed Price (CAD\$/bbl)	Fair Value (\$ thousands)
April 2022 – June 2022	100	104.50	(164)
July 2022 – December 2022	100	103.30	(195)

Term	Volumes (bbls/d)	WTI-WCS differential (CAD\$/bbl)	Fair Value (\$ thousands)
April 2022 – December 2022	100	(17.25)	(57)
January 2023 – December 2023	100	(17.30)	(36)

Oil contracts - sensitivity analysis

As at March 31, 2022, if future WCS oil prices changed by CAD\$5.00 per bbl with all other variables held constant, net income for the period would change by \$0.6 million due to changes in the fair value of risk management contracts.

As at March 31, 2022, if future WTI oil prices changed by CAD\$5.00 per bbl with all other variables held constant, net income for the period would change by \$0.1 million due to changes in the fair value of risk management contracts.

As at March 31, 2022, if future WTI-WCS differential oil prices changed by CAD\$5.00 per bbl with all other variables held constant, net income for the period would change by \$0.3 million due to changes in the fair value of risk management contracts.

The following table summarizes the risk management contracts by type:

	March 31, 2022	December 31, 2021
Financial natural gas contracts	(6,322)	682
Financial oil contracts	(4,311)	(321)
Risk management contracts	\$ (10,633)	\$ 361
Risk management contracts – current asset	45	682
Risk management contracts – current liability	(10,678)	(321)
Risk management contracts	\$ (10,633)	\$ 361

The following table details the gains (losses) on risk management contracts:

	Three months ended March 31,	
	2022	2021
Unrealized loss on financial natural gas contracts	\$ (7,004)	\$ –
Unrealized gain on physical natural gas contracts	–	905
Unrealized loss on financial oil contracts	(3,990)	–
Unrealized loss on physical oil contracts	–	(469)
Unrealized gain (loss) on risk management contracts	\$ (10,994)	\$ 436
Realized gain (loss) on financial natural gas contracts ⁽¹⁾	1,267	(1,374)
Realized loss on financial oil contracts	(987)	–
Realized gain (loss) on risk management contracts	\$ 280	\$ (1,374)
Net loss on risk management contracts	\$ (10,714)	\$ (938)

⁽²⁾ Includes realized gain of \$1.2 million for the three months ended March 31, 2022 (Q1 2021 – realized loss of \$1.4 million) from the elimination of the Company's market diversification contract obligations.

Fair value of financial assets and liabilities

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

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

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

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

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

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

The fair value of the other liability is estimated by discounting future cash payments based on Perpetual's annual average realized oil and natural gas prices exceeding certain thresholds. This fair value measurement is classified as level 3 as significant unobservable inputs, including the discount rate and Perpetual's forecasted annual average realized oil and natural gas prices, are used in determination of the carrying amount. A discount rate of 8.1% was determined on inception of the agreement based on the characteristics of the instrument.

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

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

As at March 31, 2022	Gross	Netting ⁽¹⁾	Carrying Amount	Fair value		
				Level 1	Level 2	Level 3
Financial assets						
Fair value through profit and loss						
Marketable securities	7,056	–	7,056	–	7,056	–
Risk management contracts	45	–	45	–	45	–
Financial liabilities						
Financial liabilities at amortized cost						
Revolving bank debt	(9,553)	–	(9,553)	(9,553)	–	–
Senior notes	(34,486)	–	(34,486)	–	(34,486)	–
Term loan	(2,478)	–	(2,478)	–	–	(2,478)
Fair value through profit and loss						
Other liability	(2,888)	–	(2,888)	–	–	(2,888)
Risk management contracts	(10,678)	–	(10,678)	–	(10,678)	–
Royalty obligations	(4,899)	–	(4,899)	–	–	(4,899)

⁽¹⁾ Risk management contract assets and liabilities presented in the condensed interim consolidated statements of financial position are shown net of offsetting assets or liabilities where the arrangement provides for the legal right, and intention for net settlement exists.

DIRECTORS

Susan L. Riddell Rose

President, Chief Executive Officer and Director

Linda A. Dietsche

Independent Director⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾

Robert A. Maitland

Independent Director⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾

Geoffrey C. Merritt

Independent Director⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾

Ryan A. Shay

Vice President, Finance and Chief Financial Officer and Director

Howard R. Ward

Independent Director⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾

⁽¹⁾ Member of Audit Committee

⁽²⁾ Member of Reserves Committee

⁽³⁾ Member of Compensation and Corporate Governance Committee

⁽⁴⁾ Member of Environmental, Health & Safety Committee

OFFICERS

Susan L. Riddell Rose

President, Chief Executive Officer and Director

Ryan A. Shay

Vice President, Finance and Chief Financial Officer

Ryan M. Goosen

Vice President, Business Development and Land

Jeffrey R. Green

Vice President, Corporate and Engineering Services

Linda L. McKean

Vice President, Exploration and Development

Marcello M. Rapini

Vice President, Marketing

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AUDITORS

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Bank of Nova Scotia

RESERVE EVALUATION CONSULTANTS

McDaniel & Associates Consultants Ltd.

REGISTRAR AND TRANSFER AGENT

Odyssey Trust Company