



**CONDENSED INTERIM CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED)**

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022

PERPETUAL ENERGY INC.
Condensed Interim Consolidated Statements of Financial Position

As at	September 30, 2022		December 31, 2021	
<i>(Cdn\$ thousands unaudited)</i>				
Assets				
Current assets				
Cash	\$	—	\$	1,090
Accounts receivable		13,793		11,671
Marketable securities (note 3)		2,745		2,409
Prepaid expenses and deposits		2,014		910
Risk management contracts (note 19)		1,789		682
		20,341		16,762
Property, plant and equipment (note 4)		174,703		153,620
Exploration and evaluation (note 5)		7,168		7,329
Risk management contracts (note 19)		280		—
Right-of-use assets (note 6)		939		1,140
Total assets	\$	203,431	\$	178,851
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	\$	36,061	\$	32,223
Other liability (note 10)		522		63
Risk management contracts (note 19)		132		321
Royalty obligations (note 12)		1,916		4,697
Lease liabilities (note 13)		706		778
Decommissioning obligations (note 14)		1,791		1,327
		41,128		39,409
Term loan (note 9)		2,508		2,469
Revolving bank debt (note 8)		6,974		2,487
Other liability (note 10)		2,420		1,324
Senior notes (note 11)		34,192		34,189
Risk management contracts (note 19)		56		—
Lease liabilities (note 13)		997		1,324
Decommissioning obligations (note 14)		24,987		31,600
Total liabilities		113,262		112,802
Equity				
Share capital (note 15)		98,601		94,809
Contributed surplus		46,193		45,731
Deficit		(54,625)		(74,491)
Total equity		90,169		66,049
Total liabilities and equity	\$	203,431	\$	178,851
Contingencies (note 7)				

See accompanying notes to the condensed interim consolidated financial statements.

/s/ Linda A. Dietsche

Linda A. Dietsche
 Director

/s/ Geoffrey C. Merritt

Geoffrey C. Merritt
 Director

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
<i>(Cdn\$ thousands, except per share amounts, unaudited)</i>				
Revenue				
Oil and natural gas (note 17)	\$ 22,856	\$ 14,603	\$ 81,108	\$ 39,365
Royalties	(5,574)	(1,620)	(15,514)	(6,134)
	17,282	12,983	65,594	33,231
Unrealized gain risk management contracts (note 19)	8,597	831	1,520	2,432
Realized gain (loss) risk management contracts (note 19)	2,060	(1,808)	(4,769)	(4,749)
Gas over bitumen royalty credit	—	(78)	—	385
Other income (note 14)	211	57	245	739
	28,150	11,985	62,590	32,038
Expenses				
Production and operating	4,433	3,159	12,279	9,997
Transportation	1,025	678	2,649	2,122
Exploration and evaluation (note 5)	74	74	98	93
General and administrative (note 4)	2,649	3,051	7,056	7,100
Share-based payments (note 16)	2,361	574	6,570	1,576
Gain on dispositions	—	(47,920)	—	(48,017)
Depletion and depreciation (note 4 and 6)	4,546	3,559	12,329	9,838
Impairment reversal (note 4b)	—	—	(7,400)	(30,100)
Net income from operating activities	13,062	48,810	29,009	79,429
Finance income (expense) (note 18)	(2,215)	1,800	(9,442)	(4,508)
Change in fair value of marketable securities (note 3)	(2,613)	531	299	531
Net income and comprehensive income	\$ 8,234	\$ 51,141	\$ 19,866	\$ 75,452
Net income per share (note 15f)				
Basic	\$ 0.13	\$ 0.80	\$ 0.31	\$ 1.20
Diluted	\$ 0.11	\$ 0.72	\$ 0.27	\$ 1.08

See accompanying notes to the condensed interim consolidated financial statements.

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

	Share capital		Contributed surplus	Deficit	Total equity
	(thousands)	(\$thousands)			
<i>(Cdn\$ thousands unaudited)</i>					
Balance at December 31, 2021	63,567 \$	94,809 \$	45,731 \$	(74,491) \$	66,049
Net income	—	—	—	19,866	19,866
Change in shares held in trust (note 15 and 16)	(722)	(688)	—	—	(688)
Share-based payments (note 16)	3,078	4,480	462	—	4,942
Balance at September 30, 2022	65,923 \$	98,601 \$	46,193 \$	(54,625) \$	90,169

	Share capital		Contributed surplus	Deficit	Total equity
	(thousands)	(\$thousands)			
<i>(Cdn\$ thousands unaudited)</i>					
Balance at December 31, 2020	61,305 \$	97,333 \$	45,217 \$	(155,612) \$	(13,062)
Net income	—	—	—	75,452	75,452
Common shares issued (note 15 and 16)	2,828	616	(298)	—	318
Change in shares held in trust (note 15 and 16)	349	177	(168)	—	9
Common share split (note 15)	8,158	—	—	—	—
Common share cancellation (note 15)	(8,158)	(2,779)	—	—	(2,779)
Common share odd-lot cancellation (note 15)	(590)	(204)	—	—	(204)
Share-based payments (note 16)	—	—	451	—	451
Balance at September 30, 2021	63,892 \$	95,143 \$	45,202 \$	(80,160) \$	60,185

See accompanying notes to the condensed interim consolidated financial statements.

PERPETUAL ENERGY INC.
Condensed Interim Consolidated Statements of Cash Flows

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
<i>(Cdn\$ thousands, unaudited)</i>				
Cash flows from operating activities				
Net income	\$ 8,234	\$ 51,141	\$ 19,866	\$ 75,452
Adjustments to add (deduct) non-cash items:				
Other income (note 14)	(211)	(57)	(245)	(739)
Depletion and depreciation (note 4 and 6)	4,546	3,559	12,329	9,838
Share-based payments (note 16)	1,985	199	5,444	451
Unrealized gain on risk management contracts (note 19)	(8,597)	(830)	(1,520)	(2,431)
Change in fair value of marketable securities (note 3)	2,613	(531)	(299)	(531)
Finance expense (note 18)	1,072	(2,716)	6,089	4,238
Loss (gain) on disposition (note 4)	—	(47,920)	—	(48,017)
Impairment reversal (note 4b)	—	—	(7,400)	(30,100)
Oil and natural gas revenue in-kind (note 12)	—	(1,282)	—	(3,613)
Transaction costs on disposition (note 4)	—	(583)	—	(583)
Decommissioning obligations settled (note 14)	(582)	54	(155)	(377)
Change in non-cash working capital	(311)	5,621	(7,517)	7,604
Net cash flows from operating activities	8,749	6,655	26,592	11,192
Cash flows from (used in) financing activities				
Change in revolving bank debt, net of issue costs (note 8)	1,602	(2,071)	4,036	(4,415)
Change in senior notes, net of issue costs (note 11)	(834)	26	(834)	(199)
Change in term loan, net of issue costs (note 9)	—	(188)	—	(188)
Payments of lease liabilities (note 13)	(181)	(158)	(529)	(454)
Payments of royalties (note 12)	(1,888)	(88)	(5,400)	(558)
Shares purchased and held in trust	(631)	—	(1,190)	—
Other liabilities (note 10)	—	—	(63)	—
Common shares issues, net of issue costs	—	(116)	—	114
Net cash flows from (used in) financing activities	(1,932)	(2,595)	(3,980)	(5,700)
Cash flows used in investing activities				
Capital expenditures	(22,596)	(9,947)	(31,794)	(11,504)
Acquisitions (note 4)	—	—	—	(625)
Net proceeds from dispositions (note 4(a))	—	(4,060)	—	(3,858)
Purchase of marketable securities (note 3)	(8)	—	(37)	—
Change in non-cash working capital	15,787	9,947	8,129	10,495
Net cash flows used in investing activities	(6,817)	(4,060)	(23,702)	(5,492)
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 and nine months ended September 30, 2022

(All tabular amounts are in thousands of Cdn\$, 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 and nine months ended September 30, 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 November 7, 2022.

3. MARKETABLE SECURITIES

		Amount (\$thousands)
December 31, 2020	\$	—
Rubellite shares and warrants received (note 4) ⁽¹⁾		9
Warrants exercised (note 15(d))		118
AIMCo Bonus Shares received (note 9) ⁽²⁾		1,361
AIMCo Bonus Shares delivered (note 9) ⁽²⁾		(1,361)
Rubellite Share Purchase Warrants received		2,000
Change in fair value of marketable securities		282
December 31, 2021	\$	2,409
Purchase		37
Change in fair value of marketable securities		299
September 30, 2022	\$	2,745

⁽¹⁾ On September 3, 2021, a Plan of Arrangement was completed involving Perpetual, the shareholders of Perpetual, and Rubellite Energy Inc. ("Rubellite") (the "Arrangement"). 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 Arrangement.

⁽²⁾ 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 680,485 Rubellite shares (the "AIMCo Bonus Shares") to the second lien lender. The AIMCo Bonus Shares were valued at \$1.4 million.

As at September 30, 2022 the Company holds 58,500 Rubellite shares on behalf of its employees valued at \$0.1 million using the Rubellite common share price of \$2.37 per share.

Under the terms of the Arrangement, Perpetual also received 4.0 million Rubellite Share Purchase Warrants, with an exercise price of \$3.00 per share, that were initially valued at \$2.0 million when received and revalued to \$2.6 million as at September 30, 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 of the Rubellite Share Purchase Warrants at the initial grant date upon completion of the Arrangement and as at period end:

	September 30, 2022	Grant Date
Dividend Yield (%)	—	—
Expected volatility (%)	40%	40%
Risk-free interest rate (%)	3.09%	1.20%
Contractual life (years)	3.9	5.0
Share price	\$2.37	\$2.00
Exercise price	\$3.00	\$3.00
Fair value	\$0.64	\$0.50

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	31,764	30	31,794
Change in decommissioning obligations related to PP&E (note 14)	(6,274)	—	(6,274)
Transfers from exploration and evaluation (note 5)	161	—	161
September 30, 2022	\$ 600,185	\$ 7,684	\$ 607,869
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	(11,996)	(2)	(11,998)
Impairment reversal (b)	7,400	—	7,400
September 30, 2022	\$ (425,530)	\$ (7,636)	\$ (433,166)
Carrying amount			
December 31, 2021	\$ 153,600	\$ 20	\$ 153,620
September 30, 2022	\$ 174,655	\$ 48	\$ 174,703

For the period ended September 30, 2022, \$1.3 million (September 30, 2021 – \$0.2 million) of direct general and administrative expenses were capitalized. Future development costs for the period ended September 30, 2022 of \$74.7 million (December 31, 2021 – \$75.3 million) were included in the depletion calculation.

a) Clearwater Assets Disposition

On September 3, 2021, the Arrangement was completed involving Perpetual, the shareholders of Perpetual, and Rubellite. The Arrangement resulted in 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.

Consideration included \$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 \$1.4 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.

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
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

There were no indicators of impairment or reversal for the Company's cash generating units ("CGUs") as at September 30, 2022 and therefore, an impairment test was not performed.

The Company identified an indicator of impairment reversal at March 31, 2022 for the Eastern Alberta CGU 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.

The Company identified an indicator of impairment reversal at June 30, 2021 for the West Central and Eastern Alberta CGUs 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")

	September 30, 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

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 September 30, 2022, the Company conducted an assessment of indicators of impairment and impairment reversal for the Company's E&E assets. The Company transferred undeveloped land 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 an impairment test was required on transfer to PP&E. There were no impairments recorded to E&E as at September 30, 2022.

At September 30, 2021, the Company conducted an assessment of indicators of impairment and impairment reversal for the Company's E&E assets. There were no triggers identified and therefore, an impairment test was not performed.

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
Additions	—	130	—	130
September 30, 2022	\$ 1,591	\$ 740	\$ 247	\$ 2,578
Accumulated depreciation				
January 1, 2021	\$ (497)	\$ (215)	\$ (143)	\$ (855)
Depreciation	(258)	(134)	(61)	(453)
December 31, 2021	\$ (755)	\$ (349)	\$ (204)	\$ (1,308)
Depreciation	(193)	(116)	(22)	(331)
September 30, 2022	\$ (948)	\$ (465)	\$ (226)	\$ (1,639)
Carrying amount				
December 31, 2021	\$ 836	\$ 261	\$ 43	\$ 1,140
September 30, 2022	\$ 643	\$ 275	\$ 21	\$ 939

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 close to 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 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, a written decision related to the Application for Dismissal, dismissed and struck all claims against the Company's CEO and all but one of the claims filed against Perpetual. The Court did not find that the test for summary dismissal relating to whether the asset transaction was an arm's length transfer for purposes of section 96(1) of the Bankruptcy and Insolvency Act (the "BIA") was met, on the balance of probabilities. Accordingly, the BIA claim was not dismissed or struck and only that part of the claim could continue against Perpetual. The Trustee filed a notice of appeal with the Court of Appeal of Alberta, challenging the entire decision, and Perpetual filed a similar notice of appeal contesting the BIA claim portion of the decision (the "First Appeal"). The First Appeal proceedings were heard on December 10, 2020. On January 25, 2021, the Court of Appeal of Alberta issued their judgement with respect to the First Appeal proceedings, dismissing the appeal filed by Perpetual and granting certain aspects of the appeals filed by the Trustee, thereby reinstating certain elements of the Sequoia Litigation for trial. On March 24, 2021, Perpetual applied for leave to appeal the First Appeal decision to the Supreme Court of Canada (the "SCC"). On July 8, 2021, the SCC dismissed Perpetual's application.

On February 25, 2020, Perpetual filed a second application to strike and summarily dismiss the BIA claim on the basis that there was no transfer at undervalue, and Sequoia was not insolvent at the time of the asset transaction nor caused to be insolvent by the asset transaction (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 Summary 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.

Subsequent to September 30, 2022 the Trustee filed its Amended Statement of Claim with the Court on October 14, 2022. Perpetual may file a statement of defense in response to the Amended Statement of Claim within 60 days of the filing and service of the Amended Statement of Claim.

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

The Company has a first lien credit facility of \$30 million (December 31, 2021 - \$17 million) with an initial term to May 31, 2023. The initial term may be extended to May 31, 2024 subject to approval by the syndicate. If the facility is not extended all outstanding balances would be repayable on May 31, 2024. The next semi-annual borrowing base redetermination is scheduled to be completed on or before November 30, 2022.

As at September 30, 2022, \$7.0 million was drawn (December 31, 2021 – \$2.5 million) and \$1.2 million of letters of credit had been issued (December 31, 2021 – \$1.0 million) under the Company’s credit facility. Borrowings under the Credit Facility bear interest at its lenders’ prime rate or Banker’s Acceptance rates, plus applicable margins and standby fees. The applicable Banker’s Acceptance margins range between 3.0% and 5.5%. The effective interest rate on the Credit Facility at September 30, 2022 was 5.9%. For the period ended September 30, 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.

The Credit Facility is secured by general first lien security agreements covering all present and future property of the Company and its subsidiaries.

At September 30, 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	September 30, 2022		December 31, 2021	
			Principal	Carrying Amount	Principal	Carrying amount
Term loan	December 31, 2024	8.1%	\$ 2,671	\$ 2,508	\$ 2,671	\$ 2,469

During the third quarter of 2021, Perpetual executed an 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 (the “Second Lien Loan Settlement”) (note 10). All amounts related to the Second Lien Loan Settlement were paid on October 5, 2021. 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.

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 September 30, 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 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. For 2021, \$0.2 million was earned and \$0.1 million was paid on June 30, 2022, with the remaining \$0.1 million to be paid on June 30, 2023. This leaves a maximum remaining total obligation to be earned for 2022 and 2023 of \$3.2 million. At September 30, 2022, the Company estimated the maximum total remaining obligation to be \$3.3 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 and comprehensive income.

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

	September 30, 2022		December 31, 2021	
Balance, beginning of period	\$	1,387	\$	—
Initial recognition		—		228
Cash payments		(63)		—
Change in fair value		1,618		1,159
Balance, end of period	\$	2,942	\$	1,387

	September 30, 2022		December 31, 2021	
Current	\$	522	\$	63
Non-current		2,420		1,324
Total other liability	\$	2,942	\$	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 nine months ended September 30, 2022, an unrealized loss of \$1.6 million (Q3 2021 – \$1.0 million) is included in non-cash finance expense related to the change in fair value of other liability (note 18).

At September 30, 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	September 30, 2022		December 31, 2021	
			Principal	Carrying Amount	Principal	Carrying amount
Senior notes	January 23, 2025	8.75%	\$ 35,647	\$ 34,192	\$ 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 by making PIK Interest Payments, increasing the principal amount to \$36.6 million.

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

At September 30, 2022, the senior notes are recorded at the present value of future cash flows, net of \$1.5 million in issue and principal discount costs which are amortized over the remaining term using a weighted average effective interest rate of 13.9%.

During the third quarter of 2022 the Company purchased and cancelled a portion of the 2025 Senior Notes balance with a carrying value of \$0.9 million (2021 - nil) for gross proceeds of \$0.8 million. A gain on extinguishment of \$0.1 million (2021 - nil) is included in non-cash finance expense (note 18).

The senior notes are direct senior secured, third lien obligations of the Company. The Company may redeem the senior notes without any repayment penalty. The senior notes have a cross-default provision with the Company's Credit Facility. In addition, the senior notes indenture contains restrictions on certain payments including dividends, retirement of subordinated debt, and stock repurchases.

At September 30, 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 holds an additional \$10.3 million of the 2025 Senior Notes outstanding.

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	(5,400)	—	(5,400)
Change in fair value (note 18)	2,619	—	2,619
September 30, 2022	\$ 1,916	\$ —	\$ 1,916

⁽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 nine months ended September 30, 2022, an unrealized loss of \$2.6 million (Q3 2021 – unrealized loss of \$4.8 million) is included in non-cash finance expense related to the change in fair value of the retained East Edson total royalty obligation (note 18).

As at September 30, 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 \$0.1 million.

13. LEASE LIABILITIES

	September 30, 2022	December 31, 2021
Balance, beginning of period	\$ 2,102	\$ 2,501
Additions	130	221
Interest on lease liabilities (note 18)	90	148
Payments	(619)	(768)
Total lease liabilities	\$ 1,703	\$ 2,102
Current	\$ 706	\$ 778
Non-current	997	1,324
Total lease liabilities	\$ 1,703	\$ 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 September 30, 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:

	September 30, 2022	December 31, 2021
Obligations incurred, including acquisitions	\$ 687	\$ 965
Change in risk free interest rate	(6,258)	(1,309)
Change in estimates	(703)	3,033
Change in decommissioning obligations related to PP&E (note 4)	(6,274)	2,689
Obligations settled (cash)	(155)	(1,760)
Obligations settled ⁽¹⁾ (non-cash)	(245)	(704)
Obligations disposed (note 4(a)(v))	—	(853)
Accretion (note 18)	525	531
Change in decommissioning obligations	(6,149)	(97)
Balance, beginning of period	32,927	33,024
Balance, end of period	\$ 26,778	\$ 32,927
Decommissioning obligations – current ⁽²⁾	\$ 1,791	\$ 1,327
Decommissioning obligations – non-current	24,987	31,600
Total decommissioning obligations	\$ 26,778	\$ 32,927

⁽¹⁾ During the three and nine months ended September 30, 2022, obligations settled (non-cash) of \$0.2 million (Q3 2021 – \$0.1 million and \$0.4 million) respectively 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.

⁽²⁾ Current decommissioning liabilities relate to obligations that the Company reasonably expects to be settled within the next 12 months.

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 Company's current decommissioning obligation exceeds the Alberta Energy Regulator's ("AER") required spend over the next twelve months.

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 and comprehensive income. 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:

	September 30, 2022	December 31, 2021
Undiscounted obligations	\$ 33,383	\$ 32,254
Average risk-free rate	3.1%	1.7%
Inflation rate	1.7%	1.8%
Expected timing of settling obligations	1 to 25 years	1 to 25 years

15. SHARE CAPITAL

	September 30, 2022		December 31, 2021	
	Shares (thousands)	Amount (\$thousands)	Shares (thousands)	Amount (\$thousands)
Balance, beginning of period	63,567	\$ 94,809	61,305	\$ 97,333
Issued pursuant to share-based payment plans	3,078	4,480	1,828	243
Shares held in trust purchased (b)	(1,221)	(1,190)	(542)	(191)
Shares held in trust issued (b)	499	502	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	65,923	\$ 98,601	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 September 30, 2022, 1.1 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

<i>(thousands, except per share amounts)</i>	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Net income – basic and diluted	\$ 8,234	\$ 51,141	\$ 19,866	\$ 75,452
Weighted average shares				
Issued common shares	65,319	64,091	64,268	63,130
Effect of shares held in trust	(303)	(290)	(304)	(462)
Weighted average common shares outstanding – basic	65,016	63,801	63,964	62,668
Weighted average common shares outstanding – diluted ⁽¹⁾	74,607	71,227	74,741	69,955
Net income per share – basic	\$ 0.13	\$ 0.80	\$ 0.31	\$ 1.20
Net income per share – diluted	\$ 0.11	\$ 0.72	\$ 0.27	\$ 1.08

⁽¹⁾ For the three months ended September 30, 2022, 5.5 million potentially issuable common shares through the share-based compensation plans were excluded as they were not dilutive (Q3 2021 – 9.4 million). For the nine months ended September 30, 2022, 4.3 million potentially issuable common shares through the share-based compensation plan were excluded as they were not dilutive (nine months ended September 30, 2022 - 9.5 million).

16. SHARE-BASED PAYMENTS

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Compensation awards	\$ 176	\$ 75	\$ 424	\$ 145
Share options	62	16	103	67
Performance share rights	2,123	483	6,043	1,364
Share-based payments⁽¹⁾	\$ 2,361	\$ 574	\$ 6,570	\$ 1,576

⁽¹⁾ For the three and nine months ended September 30, 2022, the Company has recorded \$0.4 million and \$1.1 million respectively, (three and nine months ended September 30, 2021 - \$0.4 million and \$1.1 million respectively) related to equity settled transactions that are expected to settle in cash.

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

<i>(thousands)</i>	Compensation awards					
	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)	—	(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⁾	1,397	724	1,298	833	3,040	7,292
Exercised for common shares	—	—	(49)	—	(3,040)	(3,089)
Exercised for shares held in trust	(704)	(280)	—	—	—	(984)
Exercised for restricted rights	—	(675)	—	(2,365)	—	(3,040)
Performance adjustment ⁽⁴⁾	—	—	—	1,014	—	1,014
Cancelled/forfeited	(219)	(20)	(1,685)	—	—	(1,924)
September 30, 2022	5,950	2,907	3,641	2,547	—	15,045

(1) Certain performance share rights contain monetary awards that may be settled in cash, in common shares of the Company, or a combination thereof at the discretion of the Board of Directors, equal to the monetary amount at the time of vesting. These awards are accounted for as cash-settled share-based 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 September 30, 2022, \$1.1 million had been accrued pursuant to cash-settled share-based payment awards (December 31, 2021 – \$0.3 million).

(2) Share options granted during the nine months ended September 30, 2022 have a weighted average exercise price of \$1.05 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 nine months ended September 30, 2022, 1.4 million deferred options, 0.7 million deferred shares, 1.2 million share options, 0.8 million performance share rights, and 3.0 million restricted rights 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.

During the nine month period ended September 30, 2022, the Company eliminated fixed volume obligations of 15,000 MMBtu/d for the period commencing November 1, 2022 and ending on October 31, 2023 and will receive payment of \$5.5 million over the term of the associated contract volumes. The amount was recognized as a realized gain on risk management contracts (note 19).

During the nine month period ended September 30, 2021, the Company eliminated between 10,000 MMBtu/d and 25,400 MMBtu/d for the period commencing April 1, 2021 and ending on October 31, 2022 in consideration for the payment of \$3.2 million over the term of the associated contract volumes (note 19).

Market/Pricing Point	November 1, 2022 to October 31, 2023 Daily sales volume (MMBtu/d)	November 1, 2023 to October 31, 2024 Daily sales volume (MMBtu/d)
Malin	—	15,000
Dawn	15,000	15,000
Emerson	10,000	10,000
Total sales volume obligation	25,000	40,000

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Oil and natural gas revenue				
Natural gas ⁽¹⁾	\$ 11,746	\$ 6,966	\$ 49,235	\$ 19,098
Oil	8,045	5,832	22,170	15,309
NGL	3,065	1,805	9,703	4,958
Total oil and natural gas revenue	\$ 22,856	\$ 14,603	\$ 81,108	\$ 39,365

Included in accounts receivable at September 30, 2022 is \$7.1 million of accrued oil and natural gas revenue related to September 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 September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Cash finance expense				
Interest on revolving bank debt	\$ 260	\$ 275	\$ 697	\$ 803
Interest on term loan	54	—	161	—
Interest on 2025 Senior Notes ⁽¹⁾	801	608	2,405	608
Interest on 2022 Senior Notes ⁽²⁾	—	—	—	(1,253)
Interest on lease liabilities (note 13)	28	33	90	112
Total cash finance expense	1,143	916	3,353	270
Non-cash finance expense				
Interest paid in-kind on term loan (note 9)	—	847	—	2,743
Interest paid in-kind on 2025 Senior Notes (note 11) ⁽²⁾	—	178	—	3,002
Gain on senior note maturity extension (note 11)	—	—	—	(1,591)
Gain on senior note extinguishment (note 11) ⁽³⁾	(101)	—	(101)	—
Gain on term loan substantive modification	—	(6,820)	—	(6,820)
Amortization of debt issue costs	462	169	1,428	727
Accretion on decommissioning obligations (note 14)	213	140	525	385
Change in fair value of other liability (note 10)	59	1,028	1,618	1,028
Change in fair value of royalty obligations (note 12)	439	1,742	2,619	4,764
Total non-cash finance expense	1,072	(2,716)	6,089	4,238
Finance expense (income) recognized in net income	\$ 2,215	\$ (1,800)	\$ 9,442	\$ 4,508

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

⁽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.

⁽³⁾ During the three and nine month period ended September 30, 2022 the Company extinguished \$0.9 million of Senior Notes outstanding for a total cost of \$0.8 million, resulting in a gain on extinguishment of \$0.1 million.

19. FINANCIAL RISK MANAGEMENT

Natural gas contracts

At September 30, 2022 the Company had entered into the following natural gas risk management contracts at AECO:

Commodity	Volumes sold	Term	Reference/ Index	Contract Traded Bought/sold	Market Price
Natural gas	10,000 GJ/d	Oct 1 – Dec 31, 2022	AECO 5A (CAD\$/GJ)	Swap - sold	\$4.81
Natural gas	5,000 GJ/d	Jan 1 - Mar 31, 2023	AECO 5A (CAD\$/GJ)	Swap - sold	\$4.62
Natural gas	5,000 GJ/d	Nov 1, 2022 - Mar 31, 2023	AECO 7A (CAD\$/GJ)	Collar	\$7.00-8.00
Natural gas	10,000 GJ/d	Jan 1 - Mar 31, 2023	AECO 7A (CAD\$/GJ)	Collar	\$7.00-8.10

Natural gas contracts - sensitivity analysis

As September 30, 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 \$0.9 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 September 30, 2022, the Company had entered the following oil risk management contracts which settle in CAD\$:

Commodity	Volumes sold	Term	Reference/ Index	Contract Traded Bought /sold	Market Price
Crude Oil	400 bbl/d	Oct 1- Dec 31, 2022	WCS FP (CAD\$/bbl)	Swap - sold	70.73
Crude Oil	100 bbl/d	Jan 1 - Dec 31, 2023	WTI (USD\$/bbl)	Swap - sold	89.15
Crude Oil	100 bbl/d	Jan 1 - Dec 31, 2023	WTI (USD\$/bbl)	Swap - sold	103.30
Crude oil	100 bbl/d	Oct 1 – Dec 31, 2022	WCS (CAD\$/bbl)	Differential	(17.25)
Crude oil	100 bbl/d	Jan 1 – Dec 31, 2023	WCS (CAD\$/bbl)	Differential	(17.30)

Oil contracts - sensitivity analysis

As at September 30, 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 \$0.5 million due to changes in the fair value of risk management contracts.

As at September 30, 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 \$0.3 million due to changes in the fair value of risk management contracts.

Foreign exchange contracts

At September 30, 2022, the Company had entered the following CAD/USD foreign exchange swaps which settle in CAD\$:

Contract	Notional amount	Term	Price (US\$/CAD\$)
Average rate forward (US\$/CAD\$)	\$316,444 US\$/month	Nov 1, 2022 – Mar 31, 2023	1.3740
Average rate forward (US\$/CAD\$)	\$200,000 US\$/month	Jan 1 – Dec 31, 2023	1.3029

As at September 30, 2022, if future USD/CAD exchange rates changed by CAD\$0.05 with all other variables held constant, net income for the period would change by \$0.2 million due to changes in the fair value of risk management contracts.

Foreign exchange contracts - sensitivity analysis

Subsequent to September 30, 2022, the Company entered into a USD/CAD foreign exchange swap for a notional amount of \$500,000 at a rate \$1.371 for the term of January 2023 to December 2023.

The following table summarizes the risk management contracts by type:

	September 30, 2022	December 31, 2021
Financial natural gas contracts	1,429	682
Financial foreign exchange contracts	(188)	—
Financial oil contracts	640	(321)
Risk management contracts	\$ 1,881	\$ 361
Risk management contracts – current asset	1,789	682
Risk management contracts – non-current asset	280	—
Risk management contracts – current liability	(132)	(321)
Risk management contracts – non-current liability	(56)	—
Risk management contracts	\$ 1,881	\$ 361

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Unrealized gain (loss) on financial foreign exchange contracts	\$ (188)	\$ —	\$ (188)	\$ —
Unrealized gain (loss) on physical natural gas contracts	—	944	(147)	2,482
Unrealized gain (loss) on financial natural gas contracts	5,392	—	894	—
Unrealized gain (loss) on physical oil contracts	—	(88)	—	(26)
Unrealized gain (loss) on financial oil contracts	3,393	(25)	961	(25)
Unrealized change in fair value of derivatives	8,597	831	1,520	2,431
Realized gain (loss) on financial natural gas contracts	(542)	—	(6,351)	—
Realized gain (loss) on financial market diversification contracts	3,492	(1,808)	5,486	(4,748)
Realized gain (loss) on financial oil contracts	(890)	—	(3,904)	—
Realized gain (loss) on financial derivatives	2,060	(1,808)	(4,769)	(4,748)
Change in fair value of derivatives	\$ 10,657	\$ (977)	\$ (3,249)	(2,317)

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 September 30, 2022	Gross	Netting ⁽¹⁾	Carrying Amount	Fair value		
				Level 1	Level 2	Level 3
Financial assets						
Fair value through profit and loss						
Marketable securities	2,745	—	2,745	—	2,745	—
Risk management contracts	2,069	—	2,069	—	2,069	—
Financial liabilities						
Financial liabilities at amortized cost						
Revolving bank debt	(6,974)	—	(6,974)	(6,974)	—	—
Senior notes	(34,192)	—	(34,192)	—	(34,192)	—
Term loan	(2,508)	—	(2,508)	—	—	(2,508)
Fair value through profit and loss						
Other liability	(2,942)	—	(2,942)	—	—	(2,942)
Risk management contracts	(188)	—	(188)	—	(188)	—
Royalty obligations	(1,916)	—	(1,916)	—	—	(1,916)

⁽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.

20. RELATED PARTIES

Perpetual has in place 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 and nine months ended September 30, 2022, the amount of general and administrative costs billed to Rubellite were \$0.6 and \$1.3 million, respectively. As a result of various other transactions between the parties under the MSA, at September 30, 2022, the Company recorded an accounts receivable of \$1.1 million owing from Rubellite.