



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.

During the first quarter of 2023, progress was made to advance Perpetual's top five strategic priorities for 2023 which include:

1. Maximize Adjusted Funds Flow and Value of Edson;
2. Maximize Adjusted 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 2023 HIGHLIGHTS

- First quarter production averaged 6,655 boe/d, inline with expectations for 2023 annual production guidance of 6,400 to 6,600 boe/d (22% oil and NGL).
- Adjusted funds flow⁽¹⁾ was \$8.9 million (\$0.13/share) in the first quarter of 2023. On a unit-of-production basis, adjusted funds flow was \$14.82/boe, a 36% decrease from the \$23.06/boe in the first quarter of 2022, driven by a decrease in commodity prices, lower production volumes and higher cash costs⁽¹⁾. Net cash flows from operating activities were \$7.4 million.
- Perpetual invested \$9.1 million in exploration and development spending⁽¹⁾ to drill, complete, equip and tie-in a two (1.0 net) well pad at East Edson, targeting the Wilrich formation, and install related pipeline infrastructure. The one (0.5 net) Notikewin well drilled and completed in the second half of 2022 was also placed on production. In addition, \$0.3 million was spent on asset retirement obligations ("ARO") to abandon wells that had reached their end of life and execute surface lease reclamation activities.
- Cash costs⁽¹⁾ were \$10.1 million or \$16.81/boe in the first quarter of 2023, inline with expectations for annual cash cost guidance of \$16 to \$18 per boe for 2023.
- Net loss for the first quarter of 2023 was \$0.2 million.
- Net debt⁽¹⁾ was \$55.4 million at March 31, 2023, a decrease of \$0.3 million from \$55.7 million at December 31, 2022.
- Perpetual had available liquidity⁽¹⁾ at March 31, 2023 of \$18.0 million, comprised of the \$30.0 million borrowing limit of Perpetual's first lien credit facility, less current borrowings and letters of credit of \$10.8 million and \$1.2 million, respectively.

⁽¹⁾ Non-GAAP financial 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. See "Non-GAAP and Other Financial Measures" in this news release.

2023 OUTLOOK

Perpetual's Board of Directors previously approved annual exploration and development capital spending⁽¹⁾ of \$25 - \$32 million for 2023. As planned, two (1.0 net) wells were drilled at East Edson in the first quarter. The remainder of the 2023 capital program is expected to be concentrated in the third quarter of 2023 and focused primarily at East Edson. The 2023 capital program is forecast to be fully funded from the Company's credit facility and adjusted funds flow⁽¹⁾.

During the second half of 2023, Perpetual is planning to participate at its 50% working interest in an East Edson drilling program to drill, complete, equip and tie-in an additional four to six (2.0 to 3.0 net) horizontal wells to fill the West Wolf gas plant in order to optimize production and operating costs, meet transportation commitments and maximize natural gas and NGL sales through next winter.

At Mannville in Eastern Alberta, Perpetual continues to monitor performance of the horizontal, multi-lateral wells drilled in 2022 targeting heavy oil in the Sparky formation, and is operationally prepared to drill up to one follow-up multi-lateral well in the second half of 2023. Perpetual will also continue to focus on waterflood optimization and battery consolidation projects as well as abandonment and reclamation activities at the Mannville property.

Exploration and development capital spending for Perpetual for full year 2023 continues to be forecast at \$25 to \$32 million. The table below summarizes anticipated capital spending and drilling activities for Perpetual for the full year of 2023.

	Q1 2023	# of wells	Q2 - Q4 2023	# of wells	2023	# of wells
	(\$ millions)	(gross/net)	(\$ millions)	(gross/net)	(\$ millions)	(gross/net)
West Central	\$8.9	2 / 1.0	\$14 - \$19	4 - 6 / 2.0 - 3.0	\$23 - \$28	6 - 8 / 3.0 - 4.0
Eastern Alberta ⁽¹⁾	\$0.2	- / -	\$2 - \$4	0 - 1 / 0.0 - 1.0	\$2 - \$4	0 - 1 / 0.0 - 1.0
Total⁽²⁾	\$9.1	2 / 1.0	\$16 - \$23	4 - 7 / 2.0 - 4.0	\$25 - \$32	6 - 9 / 3.0 - 5.0

⁽¹⁾ Oil-based mud load fluid is recycled for future drilling operations to the extent possible, or sold and credited back to drilling capital.

⁽²⁾ Excludes abandonment and reclamation spending and acquisitions or land expenditures, if any.

Total Company average production is expected to be stable year over year at 6,400 to 6,600 boe/d (22% oil and NGL) in 2023. Cash costs⁽¹⁾ are expected to be similar to 2022 levels with an average between \$16 and \$18 per boe for the calendar year.

2023 guidance assumptions, which are unchanged are as follows:

	2023 Guidance
Exploration and development capital expenditures ⁽¹⁾ (<i>\$ millions</i>)	\$25 - \$32
Cash costs ⁽¹⁾ (<i>\$/boe</i>)	\$16 - \$18
Royalties (% of revenue) ⁽¹⁾	16 - 18%
Average daily production (<i>boe/d</i>)	6,400 - 6,600
Production mix (%)	22% oil and NGL

⁽¹⁾ Non-GAAP measure, financial 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. See "Non-GAAP and Other Financial Measures" in this news release and in the MD&A.

Perpetual will continue addressing end of life ARO, with total abandonment and reclamation expenditures of approximately \$1.5 to \$2.0 million planned for 2023. This exceeds the Company's annual area-based closure mandatory spending requirement of \$1.4 million as calculated by the Alberta Energy Regulator ("AER").

⁽¹⁾ Non-GAAP measure or ratio. See "Non-GAAP and Other Financial Measures"

Perpetual would also like to extend its sincerest gratitude to Mr. Howard Ward for his 20 years of service as a member of Perpetual's Board of Directors, including in the role of Chair of the Compensation and Corporate Governance Committee as well as the Chair of the Environmental, Health & Safety Committee. His dedication to the Company since its inception as Paramount Energy Trust, and his support and thoughtful contributions to navigate multiple strategic initiatives during his tenure, are deeply appreciated and his positive outlook and humor will be missed upon his retirement in May.



Susan Riddell Rose
President and Chief Executive Officer

May 4, 2023

ADVISORIES

This letter to shareholders and first quarter 2023 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 AND OTHER FINANCIAL MEASURES" on pages 14 to 16, "Management's Discussion and Analysis – FORWARD-LOOKING INFORMATION AND STATEMENTS" on pages 16 and 17.

In addition to the disclosure set out in the Company's Management's Discussion and Analysis for the period ended March 31, 2023, 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.

FINANCIAL AND OPERATING HIGHLIGHTS

(\$Cdn thousands except volume and per share amounts)	Three Months Ended March 31,		
	2023	2022	Change
Financial			
Oil and natural gas revenue	17,909	24,953	(28)%
Net income (loss)	(235)	7,162	(103)%
Per share – basic ⁽²⁾	—	0.11	(100)%
Per share – diluted ⁽²⁾	—	0.10	(100)%
Cash flow from operating activities	7,436	6,272	19 %
Adjusted funds flow ⁽¹⁾	8,876	14,117	(37)%
Per share ⁽³⁾	0.13	0.22	(39)%
Total assets	216,206	187,621	15 %
Revolving bank debt	10,846	9,553	14 %
Term loan, principal amount	2,671	2,671	— %
Other liability (undiscounted)	3,288	3,404	(3)%
Senior Notes, principal amount	35,647	36,583	(3)%
Adjusted working capital (surplus) deficiency ⁽¹⁾	2,977	(3,413)	(187)%
Net debt ⁽¹⁾	55,429	48,798	14 %
Capital expenditures			
Net capital expenditures ⁽¹⁾	9,111	4,837	88 %
Common shares outstanding (thousands)⁽⁴⁾			
End of period	66,032	63,131	5 %
Weighted average – basic	65,978	63,216	4 %
Weighted average – diluted	65,978	74,348	(11)%
Operating			
Daily average production			
Conventional natural gas (MMcf/d)	30.8	34.3	(10)%
Heavy crude oil (bb/d)	1,022	682	50 %
NGL (bb/d)	495	400	24 %
Total (boe/d) ⁽⁵⁾	6,655	6,804	(2)%
Average realized prices			
Realized natural gas price (\$/Mcf) ⁽¹⁾	3.17	5.16	(39)%
Realized oil price (\$/bb) ⁽¹⁾	63.39	95.55	(34)%
Realized NGL price (\$/bb) ⁽¹⁾	73.81	87.86	(16)%
Wells drilled – gross (net)			
Conventional natural gas	2 (1.0)	(-)	
Heavy crude oil	-/-	1 (1.0)	
Total	2 (1.0)	1 (1.0)	100 %

⁽¹⁾ Non-GAAP financial 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. See “Non-GAAP and Other Financial Measures” contained within this first quarter 2023 interim report.

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

⁽³⁾ Adjusted funds flows divided by the Company's shares outstanding.

⁽⁴⁾ Shares outstanding are net of shares held in trust (Q1 2023 – 1.3 million; Q1 2022 – 0.9 million).

⁽⁵⁾ See “Advisories – Volume Conversions”.

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, 2023, 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, 2023 as well as the audited consolidated financial statements and accompanying notes for the year ended December 31, 2022. Disclosure which is unchanged from the December 31, 2022 MD&A has not been duplicated herein. The Corporation's unaudited condensed interim 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"). The date of this MD&A is May 4, 2023.

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 and Statements". See also the other advisory sections in this MD&A for additional information.

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, can be accessed at www.sedar.com or from the Corporation's website at www.perpetualenergyinc.com.

Q1 2023 OPERATIONAL AND FINANCIAL HIGHLIGHTS

- Perpetual's capital expenditures⁽¹⁾ in the first quarter of 2023 were \$9.1 million to drill, complete, equip and tie-in a two-well pad (1.0 net) at East Edson targeting the Wilrich formation and install related pipeline infrastructure. In addition, \$0.3 million was spent on asset retirement obligations ("ARO") during the first quarter to abandon wells that had reached their end of life and execute surface lease reclamation activities.
- First quarter average production was 6,655 boe/d⁽²⁾, down 2% from the comparative period of 2022 (Q1 2022 – 6,804 boe/d), down 7% quarter over quarter (Q4 2022 – 7,138 boe/d) and inline with expectations for 2023 guidance of 6,400 to 6,600 boe/d. During the first quarter the one (0.5 net) Notikewin well drilled and completed in the second half of 2022 was placed on production. The two (1.0 net) new wells drilled at East Edson were brought on production early in the second quarter of 2023.
- Oil and natural gas revenue for the first quarter of 2023 was \$17.9 million, 28% lower than the first quarter of 2022 due to significantly lower reference prices for all products along with the 2% decrease in production. First quarter revenue decreased 37% from the fourth quarter of 2022 as production decreased 7% and realized prices decreased 31% on lower prices for all products. Realized prices after gains on risk management contracts⁽¹⁾ decreased 14% relative to the fourth quarter. Revenue inclusive of a \$4.6 million realized gain on risk management contracts for the first quarter was \$22.5 million, 11% lower than \$25.2 million of net revenue in first quarter of 2022 (inclusive of a \$0.3 million realized gain on risk management contracts) due to the combined effect of lower production and lower realized commodity prices.
- Adjusted funds flow⁽¹⁾ in the first quarter of 2023 was \$8.9 million (\$0.13/share), down \$5.2 million (37%) from \$14.1 million (\$0.22/share) in the first quarter of 2022. Adjusted funds flow on a unit-of-production basis was \$14.82/boe, a 36% decrease from the \$23.06/boe in the first quarter of 2022, driven by the decrease in commodity prices, lower production volumes and higher cash costs⁽¹⁾.
- Cash costs⁽¹⁾ were \$10.1 million or \$16.81/boe in the first quarter of 2023, up 35% (up 38% on a unit-of-production basis) from the comparative period (Q1 2022 – \$7.5 million or \$12.22/boe). The increase was due to higher production and operating costs and transportation costs. In addition, general and administrative ("G&A") expenses increased 71% due to higher professional fees related to legal, consulting and computer services, partially offset by higher overhead recoveries on increased capital spending.
- Net loss for the first quarter of 2023 was \$0.2 million (Q1 2022 – \$7.2 million net income). The net loss in the first quarter of 2023 was a result of the same factors that impacted adjusted funds flow and a \$3.4 million unrealized loss on risk management contracts. Net income in the first quarter of 2022 of \$7.2 million (\$0.11/share) was impacted by a \$7.4 million impairment reversal.
- As at March 31, 2023, net debt⁽¹⁾ was \$55.4 million, a decrease of \$0.3 million from \$55.7 million at December 31, 2022, as capital expenditures⁽¹⁾ closely matched adjusted funds flow.
- Perpetual had available liquidity (see "Capital Management") at March 31, 2023 of \$18.0 million, comprised of the \$30.0 million borrowing limit of Perpetual's first lien credit facility ("Credit Facility Borrowing Limit"), less current borrowings and letters of credit of \$10.8 million and \$1.2 million, respectively.

⁽¹⁾ Non-GAAP financial measure and ratio. See "Non-GAAP and Other Financial Measures".

⁽²⁾ See "First Quarter Financial and Operating Results - Production" for details of product components that comprise Perpetual's boe production.

2023 OUTLOOK

Perpetual's Board of Directors previously approved annual exploration and development capital spending⁽¹⁾ of \$25 - \$32 million for 2023. As planned, two (1.0 net) wells were drilled at East Edson in the first quarter. The remainder of the 2023 capital program is expected to be concentrated in the third quarter of 2023 and focused primarily at East Edson. The 2023 capital program is forecast to be fully funded from the Company's credit facility and adjusted funds flow⁽¹⁾.

During the second half of 2023, Perpetual is planning to participate at its 50% working interest in an East Edson drilling program to drill, complete, equip and tie-in an additional four to six (2.0 to 3.0 net) horizontal wells to fill the West Wolf gas plant in order to optimize production and operating costs, meet transportation commitments and maximize natural gas and NGL sales through next winter.

At Mannville in Eastern Alberta, Perpetual continues to monitor performance of the horizontal, multi-lateral wells drilled in 2022 targeting heavy oil in the Sparky formation, and is operationally prepared to drill up to one follow-up multi-lateral well in the second half of 2023. Perpetual will also continue to focus on waterflood optimization and battery consolidation projects as well as abandonment and reclamation activities at the Mannville property.

Exploration and development capital spending for Perpetual for full year 2023 continues to be forecast at \$25 to \$32 million. The table below summarizes anticipated capital spending and drilling activities for Perpetual for the full year of 2023.

	Q1 2023 (\$ millions)	# of wells (gross/net)	Q2 - Q4 2023 (\$ millions)	# of wells (gross/net)	2023 (\$ millions)	# of wells (gross/net)
West Central	\$8.9	2 / 1.0	\$14 - \$19	4 - 6 / 2.0 - 3.0	\$23 - \$28	6 - 8 / 3.0 - 4.0
Eastern Alberta ⁽¹⁾	\$0.2	- / -	\$2 - \$4	0 - 1 / 0.0 - 1.0	\$2 - \$4	0 - 1 / 0.0 - 1.0
Total⁽²⁾	\$9.1	2 / 1.0	\$16 - \$23	4 - 7 / 2.0 - 4.0	\$25 - \$32	6 - 9 / 3.0 - 5.0

⁽¹⁾ Oil-based mud load fluid is recycled for future drilling operations to the extent possible, or sold and credited back to drilling capital.

⁽²⁾ Excludes abandonment and reclamation spending and acquisitions or land expenditures, if any.

Total Company average production is expected to be stable year over year at 6,400 to 6,600 boe/d (22% oil and NGL) in 2023. Cash costs⁽¹⁾ are expected to be similar to 2022 levels with an average between \$16 and \$18 per boe for the calendar year.

2023 guidance assumptions, which are unchanged are as follows:

	2023 Guidance
Exploration and development expenditures ⁽¹⁾⁽²⁾ (\$ millions)	\$25 - \$32
Cash costs ⁽¹⁾ (\$/boe)	\$16 - \$18
Royalties (% of revenue) ⁽¹⁾	16 - 18%
Average daily production (boe/d)	6,400 - 6,600
Production mix (%)	22% oil and NGL

⁽¹⁾ Non-GAAP measure or ratio. See "Non-GAAP and Other Financial Measures".

⁽²⁾ Excludes abandonment and reclamation spending and acquisitions or land expenditures, if any.

Perpetual will continue addressing end of life ARO, with total abandonment and reclamation expenditures of approximately \$1.5 to \$2.0 million planned for 2023. This exceeds the Company's annual area-based closure mandatory spending requirement of \$1.4 million as calculated by the Alberta Energy Regulator ("AER").

⁽¹⁾ Non-GAAP measure or ratio. See "Non-GAAP and Other Financial Measures"

FIRST QUARTER FINANCIAL AND OPERATING RESULTS

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

Cash flow used in investing activities for the three months ended March 31, 2023 was \$3.2 million (Q1 2022 - \$12.4 million), comprised of \$9.1 million in capital expenditures and a \$5.9 million change in non-cash working capital. 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, which excludes acquisition and disposition activities.

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,	
	2023	2022
Exploration and development	9,066	4,830
Corporate assets	45	7
Capital expenditures	9,111	4,837

Exploration and development spending by area

(\$ thousands)	Three months ended March 31,	
	2023	2022
West Central	8,939	34
Eastern Alberta	127	4,796
Total	9,066	4,830

Wells drilled by area

(gross/net)	Three months ended March 31,	
	2023	2022
West Central	2 / 1.0	- / -
Eastern Alberta	- / -	1 / 1.0
Total	2 / 1.0	1 / 1.0

Perpetual's exploration and development spending in the first quarter of 2023 was \$9.1 million, of which \$8.9 million (Q1 2022 - nominal) was attributable to the drilling program at the East Edson 50% working interest property. Costs in the first quarter were spent to drill two (1.0 net) wells at East Edson targeting the Wilrich formation and included \$2.5 million of lease and pipeline costs in support of the remaining 2023 drilling program. At Mannville in Eastern Alberta, there were nominal amounts spent in the first quarter of 2023 as compared to the first quarter of 2022 when \$4.8 million was spent to execute the majority of a two-well drilling program targeting the Sparky formation.

Acquisitions and Dispositions

There were no acquisitions or dispositions during the first quarter of 2023.

Expenditures on asset retirement obligations

During the first quarter of 2023, Perpetual spent \$0.3 million (Q1 2022 – \$0.1 million) on abandonment and reclamation projects. There was one reclamation certificate received from the AER during the first quarter of 2023 (Q1 2022 – 1 reclamation certificate). Abandonment and reclamation spending eventually leads to the cessation of associated property tax and surface lease expenses, reducing future production and operating costs.

Production

	Three months ended March 31,	
	2023	2022
Production		
Conventional natural gas (Mcf/d) ⁽¹⁾	30,828	34,330
Conventional heavy crude oil (bbl/d) ⁽²⁾	1,022	682
NGL (bbl/d) ⁽³⁾	495	400
Total production (boe/d)	6,655	6,804

⁽¹⁾ Conventional natural gas production yielded a heat content of 1.17 GJ/Mcf for the three months ended March 31, 2023 (Q1 2022 – 1.17), resulting in higher realized natural gas prices on a \$/Mcf basis.

⁽²⁾ Primarily from Eastern Alberta.

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

	Three months ended March 31,	
	2023	2022
Production by core area		
West Central	5,122	5,755
Eastern Alberta	1,533	1,049
Total production (boe/d)	6,655	6,804

First quarter production averaged 6,655 boe/d, down 2% from 6,804 boe/d in the first quarter of 2022. In the first quarter of 2023, the production mix was comprised of 77% conventional natural gas and 23% conventional heavy crude oil and NGL, as compared to 84% of conventional natural gas and 16% conventional heavy crude oil and NGL in the first quarter of 2022. During the first quarter of 2023, there were production increases from one (0.5 net) Notikewin well which was drilled and completed in the second half of 2022 but came on production in January. The two (1.0 net) wells drilled at Edson in the first quarter were brought on production early in the second quarter of 2023. The decrease in first quarter production was driven by natural declines and was inline with expectations for 2023 annual production guidance of 6,400 to 6,600 boe/d (22% oil and NGL).

First quarter conventional natural gas production averaged 30.8 MMcf/d, a decrease of 10% from 34.3 MMcf/d in the comparative period of 2022 as a result of natural declines. The 2022 drilling program contributed production additions of six (3.0 net) East Edson liquids-rich gas wells midway through the second half of 2022, and one (0.5 net) Notikewin well from this program was brought on production in the first quarter of 2023. The East Edson drilling program resumed in February with the two (1.0 net) wells drilled beginning to contribute to production early in the second quarter of 2023.

Conventional heavy crude oil production averaged 1,022 bbl/d which was 50% higher than the first quarter of 2022. The increase was primarily due to the five (5.0 net) new multi-lateral heavy oil wells drilled at Mannville and brought on production through the second and third quarters of 2022. Heavy oil represented 15.4% of total production during the first quarter of 2023, up from 10.0% in the comparative period in 2022.

First quarter NGL production was 495 bbl/d, 24% higher than the comparative period of 2022. The increase in NGL production is closely tied to higher NGL yields of 17.0 bbl per MMcf in the first quarter of 2023 (Q1 2022 – 11.7 bbl per MMcf), partially offset by the decrease in conventional natural gas production at East Edson. Perpetual's average NGL sales composition for the first quarter of 2023 consisted of 58% condensate, slightly higher than the prior year period when condensate represented 53% of total NGL production as additional capital was spent during the second half of 2022 on facility optimization to reduce emissions and increase NGL recoveries.

Oil and Natural Gas Revenue

	Three months ended March 31,	
(\$ thousands, except as noted)	2023	2022
Oil and natural gas revenue		
Natural gas	8,789	15,929
Oil	5,833	5,861
NGL	3,287	3,163
Oil and natural gas revenue	17,909	24,953

	Three months ended March 31,	
	2023	2022
Average Benchmark Prices		
AECO 5A Daily Index (\$/GJ)	3.05	4.49
AECO 5A Daily Index (\$/Mcf) ⁽¹⁾	3.22	4.74
West Texas Intermediate ("WTI") (US\$/bbl)	76.13	94.29
Exchange rate (US\$/CAD\$)	1.35	1.27
West Texas Intermediate ("WTI") (CAD\$/bbl)	102.78	119.75
Western Canadian Select ("WCS") (CAD\$/bbl)	69.30	101.01
WCS differential to WTI (US\$/bbl)	(24.88)	(14.53)
Perpetual Average Realized Prices ⁽²⁾		
Natural gas (\$/Mcf)	3.17	5.16
Oil (\$/bbl)	63.39	95.55
NGL (\$/bbl)	73.81	87.86
Average realized price (\$/boe)	29.90	40.75

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

⁽²⁾ Non-GAAP ratio. See "Non-GAAP and Other Financial Measures".

Perpetual's oil and natural gas revenue for the three months ended March 31, 2023 of \$17.9 million was a 28% decrease from \$25.0 million in the comparative period due to the 2% decrease in average production and lower reference prices for all products.

Natural gas revenue of \$8.8 million in the first quarter of 2023 comprised 49% (Q1 2022 – 64%) of total revenue while natural gas production was 77% (Q1 2022 – 84%) of total production. Natural gas revenue was 45% lower than the comparative period (Q4 2021 – \$15.9 million), reflecting the combined impact of lower AECO Daily Index prices and the 10% decrease in conventional natural gas production volumes driven by timing of the drilling activity at East Edson.

Oil revenue of \$5.8 million represented 33% (Q1 2022 – 23%) of total revenue while conventional heavy crude oil production was 15% (Q1 2022 – 10%) of total production. Oil revenue was relatively unchanged from the comparative period, as a result of the 50% increase in heavy crude oil production being offset by the decrease in oil prices. Compared to the first quarter of 2022, the WCS average price of \$69.30/bbl (Q1 2022 - \$101.01/bbl) decreased significantly with the decrease in WTI and the widening WCS differential on WTI oil prices, partially offset by the increase in the US\$/CAD\$ exchange rate. Perpetual's realized oil prices further reflects a price offset for quality which averaged \$5.91/bbl during the quarter (Q1 2022 - \$5.46/bbl).

NGL revenue for the first quarter of 2023 of \$3.3 million represented 18% (Q1 2022 – 13%) of total revenue while NGL production was 7% (Q1 2022 – 6%) of total production. NGL revenue increased 4% from the comparative period, reflecting the 24% increase in NGL production which was driven by the increased NGL yields at East Edson, partially offset by the decrease in NGL component prices, in step with the drop in WTI oil prices.

Risk Management Contracts

The Company uses financial derivatives, physical delivery contracts and market diversification strategies to manage commodity price risk. Derivative contracts are put in place to manage fluctuations in commodity prices, protecting Perpetual's cash flows from potential volatility. The Company's market diversification strategies balance pricing exposure over multiple markets and are put in place to mitigate market and delivery point risks and dislocations. As a result, Perpetual's realized prices deviate from the index 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 physical and financial crude oil and natural gas forward sales, collars, basis differentials and forward foreign exchange sales.

	Three months ended March 31,	
	2023	2022
<i>(\$ thousands, except as noted)</i>		
Unrealized gain (loss) on risk management contracts		
Unrealized gain on foreign exchange contracts	59	—
Unrealized loss on natural gas contracts	(3,006)	(7,004)
Unrealized loss on oil contracts	(454)	(3,990)
Unrealized loss on risk management contracts	(3,401)	(10,994)
Realized gain (loss) on risk management contracts		
Realized gain on foreign exchange contracts	31	—
Realized gain on natural gas contracts	4,289	1,267
Realized gain (loss) on oil contracts	303	(987)
Realized gain on risk management contracts	4,623	280
Change in fair value of risk management contracts	1,222	(10,714)

The following table calculates average realized prices after risk management contracts, which is not a standardized measure:

	Three months ended March 31,	
	2023	2022
Realized gain (loss) on risk management contracts ⁽¹⁾		
Realized gain (loss) on natural gas contracts (\$/Mcf)	1.55	0.41
Realized gain (loss) on oil contracts (\$/bbl)	3.63	(16.09)
Realized gain (loss) on risk management contracts (\$/boe)	7.72	0.46
Average realized prices after risk management contracts ⁽¹⁾		
Natural gas (\$/Mcf)	4.72	5.57
Oil (\$/bbl)	67.02	79.46
NGL (\$/bbl)	73.81	87.86
Average realized price (\$/boe)	37.62	41.21

⁽¹⁾ See "Non-GAAP and Other Financial Measures".

The realized gain on risk management contracts totaled \$4.6 million for the first quarter of 2023, compared to a gain of \$0.3 million for the comparative period of 2022. The gain on risk management contracts was attributable to reference price fluctuations relative to pricing on commodity contracts driven by changes in AECO, WTI and WCS differential prices as well as fluctuations in foreign exchange rates.

The unrealized loss on risk management contracts totaled \$3.4 million in the first quarter of 2023 (Q1 2022 – unrealized loss of \$11.0 million). 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 Company's calculation of cash flow from 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 Company's assessment of commodity price risk, committed capital spending and other factors.

Royalties

	Three months ended March 31,	
(\$ thousands, except as noted)	2023	2022
Crown royalties		
Natural gas	865	539
Oil	156	268
NGL	607	204
Total Crown royalties	1,628	1,011
Freehold and overriding royalties		
Natural gas	968	1,510
Oil	591	408
NGL	389	313
Total freehold and overriding royalties	1,948	2,231
Total royalties	3,576	3,242
\$/boe	5.97	5.30

Royalties as a percentage of revenue⁽¹⁾

Crown	9.1	4.1
Freehold and overriding	10.9	8.9
Total (% of oil and natural gas revenue)	20.0	13.0
Natural gas royalties (% of natural gas revenue)	20.9	12.9
Oil royalties (% of oil revenue)	12.8	11.5
NGL royalties (% of NGL revenue)	30.3	16.4

⁽¹⁾ See "Non-GAAP and Other Financial Measures".

Total royalties for the first quarter of 2023 were \$3.6 million, 10% higher than the first quarter of 2022. On a unit-of-production basis, royalties were up 13% to \$5.97/boe (Q1 2022 – \$5.30/boe). Perpetual's royalties consists of Crown royalties payable to the Alberta provincial government and other freehold and gross overriding ("GORR") royalties. The mix between Crown and freehold production as a percentage of total production can change the composition of royalties from one period to the next. Under the Alberta Modernized Royalty Framework ("MRF"), the Company paid a flat Crown royalty of 5% on more recent wells in their early production period for most of 2022. As Perpetual's wells began to pay higher royalty rates during the second half of 2022, the average royalty rates and payments to the Crown continued to increase into the first quarter of 2023, offset partially by lower reference prices for all commodities. Freehold and overriding royalties decreased to \$1.9 million from \$2.2 million in the first quarter of 2022, due to the impact of lower AECO Daily Index, heavy oil and NGL prices.

Production and operating expenses

	Three months ended March 31,	
(\$ thousands, except as noted)	2023	2022
Production and operating expenses	4,215	3,659
\$/boe	7.04	5.98

Total production and operating expenses were \$4.2 million, 15% higher than the first quarter of 2022 (Q1 2022 - \$3.7 million). The increase was related to higher heavy crude oil production as a percentage of total volumes as it has higher operating costs than the Company's conventional natural gas and NGL production at East Edson. Also contributing to higher costs in the first quarter of 2023 was higher purchased energy costs at the non-operated East Edson gas processing facility and significant overall cost inflation.

On a unit-of-production basis, costs increased by 18% to \$7.04/boe in the first quarter of 2023 (Q1 2022 - \$5.98/boe) attributable to both higher costs, higher heavy oil production as a percentage of total production and lower total production volumes.

Transportation costs

(\$ thousands, except as noted)	Three months ended March 31,	
	2023	2022
Transportation costs	1,092	692
\$/boe	1.82	1.13

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 2023 were \$1.1 million, a 58% increase from the first quarter of 2022, as a result of higher oil and NGL production volumes which have higher transportation costs. In addition, there were increased trucking costs as a result of higher fuel prices and surcharges.

On a unit-of-production basis, transportation costs increased by 61% to \$1.82/boe in the first quarter of 2023 (Q1 2022 - \$1.13/boe) attributable to both higher transportation costs and lower total production volumes.

Operating netbacks

The following table highlights Perpetual's operating netbacks for the three months ended March 31, 2023 and 2022:

(\$/boe) (\$ thousands)	Three months ended March 31,			
	2023		2022	
Production (boe/d)	6,655		6,804	
Oil and natural gas revenue	29.90	17,909	40.75	24,953
Royalties	(5.97)	(3,576)	(5.30)	(3,242)
Production and operating expenses	(7.04)	(4,215)	(5.98)	(3,659)
Transportation costs	(1.82)	(1,092)	(1.13)	(692)
Operating netback ⁽¹⁾	15.07	9,026	28.34	17,360
Realized gain (loss) on risk management contracts	7.72	4,623	0.46	280
Total operating netback, including risk management contracts	22.79	13,649	28.80	17,640

⁽¹⁾ Non-GAAP measure. See "Non-GAAP and Other Financial Measures".

For the first quarter of 2023, Perpetual's operating netback, including risk management contracts, was \$13.6 million (\$22.79/boe), down 23% from \$17.6 million (\$28.80/boe) in the first quarter of 2022. The decrease was due to lower oil and natural gas revenue driven by lower pricing for all commodities being applied to lower average production volumes, higher royalties and higher costs in all areas.

General and administrative ("G&A") expenses

(\$ thousands, except as noted)	Three months ended March 31,	
	2023	2022
G&A expense before overhead recoveries	5,255	2,965
MSA recoveries ⁽¹⁾	(779)	(308)
Overhead recoveries	(922)	(578)
Total G&A expense	3,554	2,079
\$/boe	5.93	3.39

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

For the three months ended March 31, 2023, G&A expenses of \$3.6 million increased 71% over the comparative period. Prior to overhead recoveries, G&A increased due to higher employee salaries and benefits, legal costs, professional fees and computer services. Overhead recoveries were higher on increased capital spending.

For the three months ended March 31, 2023, the costs billed under the MSA to Rubellite were \$0.8 million (Q1 2022 - \$0.3 million). MSA recoveries in the first quarter of 2023 increased over the comparative period as a result of higher G&A expenses and Rubellite's capital activity and increased production.

Share-based payments

(\$ thousands, except as noted)	Three months ended March 31,	
	2023	2022
Share-based payments (non-cash)	679	240
Share-based payments (cash)	—	374
Total share-based payments	679	614

Share-based payments expense for the three months ended March 31, 2023 increased to \$0.7 million from \$0.6 million in the first quarter of 2022. The increase is due to a higher fair value of grants issued through 2022, which is driven by the increase in the Company's share price, partially offset by a reduction in the cash share-based payments as the related equity plan ended during the fourth quarter of 2022.

During the first quarter of 2023, 0.1 million deferred options and deferred shares, 0.9 million performance share rights and 0.1 million restricted rights were granted to Officers, Directors, and employees of the Company.

Depletion and depreciation

(\$ thousands, except as noted)	Three months ended March 31,	
	2023	2022
Depletion and depreciation	5,366	4,018
\$/boe	8.96	6.56

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, 2023, depletion was calculated on a \$177.9 million depletable balance and \$98.9 million in future development costs (December 31, 2022 – \$176.1 million depletable balance and \$104.6 million in future development costs). The depletable base excluded an estimated \$3.8 million (December 31, 2022 – \$3.8 million) of salvage value.

Depletion and depreciation expense for the first quarter of 2023 was \$5.4 million or \$8.96/boe (Q1 2022 – \$4.0 million or \$6.56/boe). The increase reflects higher depletion rates per barrel of oil equivalent, partially offset by lower production. On a unit-of-production basis, depletion and depreciation expense increased by 37% compared to the first quarter of 2022 due to an increase in the depletion rate driven by higher production and lower reserves in the Eastern Alberta along with higher depletable base from additions and impairment reversals in 2022. Depletion and depreciation expense will fluctuate from one period to the next depending on the amount of capital spent, the amount of reserves added and volumes produced.

Impairment

There were no indicators of impairment for the Company's cash generating units ("CGU"s) as of March 31, 2023 and therefore an impairment test was not performed.

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 impairment charges that were eligible for reversal had all been reversed as at March 31, 2022 for property, plant and equipment.

E&E assets are tested for impairment both at the time of any triggering facts and circumstances as well as upon their reclassification to oil and gas properties in PP&E. There were no transfers during the first quarter of 2023 and there were no indicators of impairment as at March 31, 2023.

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 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

<i>(\$ thousands)</i>	Three months ended March 31,	
	2023	2022
Cash finance expense		
Interest on revolving bank debt	359	162
Interest on term loan	54	54
Interest on Senior Notes	772	804
Interest on lease liabilities	23	32
Total cash finance expense	1,208	1,052
Non-cash finance expense		
Amortization of debt issue costs	358	515
Accretion on decommissioning obligations	222	136
Change in fair value of other liability	24	1,501
Change in fair value of royalty obligations ⁽¹⁾	—	1,595
Total non-cash finance expense	604	3,747
Finance expense recognized in net income (loss)	1,812	4,799

⁽¹⁾ The East Edson retained royalty obligation terminated on December 31, 2022.

Total cash finance expense was \$1.2 million in the first quarter of 2023, 15% higher than the first quarter of 2022 as a result of increased interest rates and higher outstanding bank debt (Q1 2022 – \$1.1 million).

Total non-cash finance expense for the first quarter of 2023 was \$0.6 million, lower than the comparative period (Q1 2022 – \$3.7 million income). The decrease was driven by the termination of the East Edson retained royalty obligation which was \$1.6 million in the comparative period and the modest change in recognition of future contingent payments related to the Second Lien Loan Settlement which are recorded as other liability with the change being recognized through finance expense.

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.

Capital management

<i>(\$ thousands, except as noted)</i>	March 31, 2023	December 31, 2022
Revolving bank debt	10,846	14,909
Term loan, principal amount	2,671	2,671
Senior notes, principal amount	35,647	35,647
Other liability, undiscounted amount	3,288	3,342
Adjusted working capital deficiency (surplus) ⁽¹⁾	2,977	(894)
Net debt ⁽¹⁾	55,429	55,675
Shares outstanding at end of period (thousands) ⁽³⁾	66,032	65,944
Market price at end of period (\$/share)	0.64	0.71
Market value of shares ⁽¹⁾	42,260	46,820
Enterprise value ⁽¹⁾	97,689	102,495
Net debt as a percentage of enterprise value ⁽²⁾	57%	54%
Trailing twelve-months adjusted funds flow ⁽¹⁾	43,230	48,471
Net debt to adjusted funds flow ⁽²⁾	1.3	1.2

⁽¹⁾ Non-GAAP measure. See "Non-GAAP and Other Financial Measures".

⁽²⁾ Non-GAAP ratio. See "Non-GAAP and Other Financial Measures".

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

At March 31, 2023, Perpetual had total net debt of \$55.4 million, down \$0.3 million from December 31, 2022 as capital expenditures only slightly exceeded adjusted funds flow by \$0.2 million during the first quarter of 2023.

Perpetual had available liquidity at March 31, 2023 of \$18.0 million, comprised of the \$30.0 million Credit Facility Borrowing Limit, less current borrowings and letters of credit of \$10.8 million and \$1.2 million, respectively.

Revolving bank debt

The Company has a first lien credit facility of \$30.0 million (December 31, 2022 - \$30.0 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 May 31, 2023.

As at March 31, 2023, \$10.8 million was drawn (December 31, 2022 – \$14.9 million) and \$1.2 million of letters of credit had been issued (December 31, 2022 – \$1.2 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 March 31, 2023 was 8.2%. For the period ended March 31, 2023 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 March 31, 2023, the Credit Facility was not subject to any financial covenants and the Company was in compliance with all customary non-financial covenants.

Term loan

(\$ thousands, except as noted)	Maturity date	Interest rate	March 31, 2023		December 31, 2022	
			Principal	Carrying Amount	Principal	Carrying amount
Term loan	December 31, 2024	8.1%	2,671	2,541	2,671	2,524

The 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, 2023, the Term Loan was not subject to any financial covenants and the Company was in compliance with all customary non-financial covenants.

Senior notes

(\$ thousands, except as noted)	Maturity date	Interest rate	March 31, 2023		December 31, 2022	
			Principal	Carrying Amount	Principal	Carrying amount
Senior notes	January 23, 2025	8.75%	35,647	34,868	35,647	34,527

The secured third lien Senior Notes have been issued under a trust indenture and 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 Senior Notes (a "PIK Interest Payment").

The Company satisfied the January 23, 2023 semi-annual interest payment of \$1.6 million by making a cash payment (January 23, 2022 - \$1.6 million cash payment; July 23, 2022 - \$1.6 million cash payment).

At March 31, 2023, the Senior Notes are recorded at the present value of future cash flows, net of \$0.8 million in issue and principal discount costs which are amortized over the remaining term using a weighted average effective interest rate of 13.9%.

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, 2023, 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 Senior Notes outstanding. An entity that is associated with the Company's CEO holds an additional \$10.3 million of the Senior Notes outstanding.

Equity

At March 31, 2023, there were 66.0 million common shares outstanding, net of 1.3 million shares held in trust for employee compensation program. During the first quarter of 2023, a nil amount of shares were purchased by the independent trustee to be held in trust (Q1 2022 – 0.4 million). Basic and diluted weighted average shares outstanding for the three months ended March 31, 2023 were 66.0 million and 66.0 million, respectively (Q1 2022 – 63.2 million basic and 74.3 million diluted).

At May 4, 2023, there were 66.0 million common shares outstanding which is net of 1.3 million shares held in trust for employee compensation programs. In addition, the following potentially issuable common shares were outstanding as at the date of this MD&A:

(millions)	May 4, 2023
Share options	2.3
Performance share rights	5.1
Compensation awards	7.2
Total ⁽¹⁾	14.6

⁽¹⁾ 7.2 million compensation awards, 2.3 million share options, and 5.1 million performance share rights have an exercise price below the March 31, 2023 closing price of the Company's common shares of \$0.64 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, 2023, the Company had entered into the following swap commodity contracts:

Commodity	Volumes sold	Term	Reference/ Index	Contract Traded Bought/sold	Market Price
Natural gas	5,000 GJ/d	Nov 1, 2023 - Mar 31, 2024	AECO 5A (CAD\$/GJ)	Swap - sold	\$3.42
Natural gas	5,000 GJ/d	Apr 1, 2024 - Oct 31, 2024	AECO 5A (CAD\$/GJ)	Swap - sold	\$3.00
Crude oil	300 bbl/d	Apr 1 - Dec 31, 2023	WTI (US\$/bbl)	Swap - sold	\$81.32
Crude oil	200 bbl/d	May 1 - Dec 31, 2023	WTI (US\$/bbl)	Swap - sold	\$78.95

As at May 4, 2023, the Company had entered into the following swap WTI-WCS basis differential which settle in CAD\$ or US\$:

Commodity	Volumes sold	Term	Reference/ Index	Contract Traded Bought/sold	Market Price
Crude oil	450 bbl/d	Apr 1 - Dec 31, 2023	WCS (US\$/bbl)	Differential	(\$14.73)
Crude oil	100 bbl/d	Jul 1 - Dec 31, 2023	WCS (US\$/bbl)	Differential	(\$16.20)
Crude oil	100 bbl/d	Jan 1 - Dec 31, 2024	WCS (US\$/bbl)	Differential	(\$14.65)
Crude oil	250 bbl/d	Jan 1 - Dec 31, 2024	WCS (US\$/bbl)	Differential	(\$17.50)
Crude oil	100 bbl/d	Apr 1 - Dec 31, 2023	WCS (CAD\$/bbl)	Differential	(\$17.30)

As at May 4, 2023, the Company had entered the following US\$/CAD\$ foreign exchange swaps which settle in CAD\$:

Contract	Notional amount	Term	Price (US\$/CAD\$)
Average rate forward (US\$/CAD\$)	\$250,000 US\$/month	Apr 1 - Dec 31, 2023	1.3700
Average rate forward (US\$/CAD\$)	\$250,000 US\$/month	Apr 1 - Dec 31, 2023	1.3600
Average rate forward (US\$/CAD\$)	\$200,000 US\$/month	Apr 1 - Dec 31, 2023	1.3029
Average rate forward (US\$/CAD\$)	\$500,000 US\$/month	Apr 1 - Dec 31, 2023	1.3710

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	April 1, 2023 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

SEQUOIA LITIGATION

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 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 have 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.

The Trustee filed its Amended Statement of Claim with the Court of King's Bench of Alberta on October 14, 2022. Perpetual filed its Statement of Defence to the Amended Statement of Claim on December 12, 2022. The Trustee filed its Reply to Defence on March 3, 2023. On March 30, 2023, Perpetual filed an Application to Dismiss or Stay the Trustee's Amended Application for Summary Judgment. On April 6, 2023, the Court of King's Bench of Alberta granted Perpetual's application and stayed the Trustee's proposed amended application for summary judgment.

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.

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.

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:

<i>(\$ thousands)</i>	Three months ended March 31,	
	2023	2022
Net cash flows used in investing activities	3,177	12,350
Purchase of marketable securities	—	(23)
Change in non-cash working capital	5,934	(7,490)
Capital expenditures	9,111	4,837

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. 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 is not intended to represent net cash flows from (used in) operating activities calculated in accordance with IFRS.

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

<i>(\$ thousands, except per share and per boe amounts)</i>	Three months ended March 31,	
	2023	2022
Net cash flows from operating activities	7,436	6,272
Change in non-cash working capital	1,189	8,510
Decommissioning obligations settled (cash)	251	(665)
Adjusted funds flow	8,876	14,117
Adjusted funds flow per share	0.13	0.22
Adjusted funds flow per boe	14.82	23.06

Free funds flow: Free funds flow is an important measure that informs efficiency of capital spent and liquidity. Free funds flow is calculated as adjusted funds flow generated during the period less capital expenditures. Adjusted funds flow and capital expenditures are non-GAAP financial measures which have been reconciled to its most directly comparable GAAP measure previously in this document. By removing the impact of current period capital expenditures from adjusted funds flow, Perpetual monitors its free funds flow to inform decisions such as capital allocation and debt repayment.

The following table shows the calculation of the removal of capital expenditures from adjusted funds flows:

(\$ thousands, except per share and per boe amounts)	Three months ended March 31,	
	2023	2022
Adjusted funds flow	8,876	14,117
Capital Expenditures	(9,111)	(4,837)
Free funds flow	(235)	9,280

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

(\$ thousands, except per boe amounts)	Three months ended March 31,	
	2023	2022
Production and operating	4,215	3,659
Transportation	1,092	692
General and administrative	3,554	2,079
Cash finance expense	1,208	1,052
Cash costs	10,069	7,483
Cash costs per boe	16.81	12.22

Operating netback: Operating netback is calculated 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 and presented before and after 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: Perpetual uses net debt as an alternative measure of outstanding debt. Management considers net debt as an important measure in assessing the liquidity of the Company. Net debt is used by management to assess the Company's overall debt position and borrowing capacity. Net debt is not a standardized measure and therefore may not be comparable to similar measures presented by other entities.

The following table details the composition of net debt:

(\$ thousands)	As of March 31, 2023	As of December 31, 2022
Accounts and accrued receivable	12,837	15,804
Prepaid expenses and deposits	1,350	1,564
Marketable securities	2,723	1,814
Inventory	654	674
Accounts payable and accrued liabilities	(20,541)	(18,962)
Adjusted working capital surplus (deficiency) ⁽¹⁾	(2,977)	894
Bank indebtedness	(10,846)	(14,909)
Term loan (principal)	(2,671)	(2,671)
Other liability (undiscounted amount)	(3,288)	(3,342)
Senior notes (principal)	(35,647)	(35,647)
Net debt	(55,429)	(55,675)

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

Available Liquidity: Available Liquidity is defined as Perpetual's credit facility borrowing limit, less current 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.

Average realized prices after risk management contracts: are calculated as the average realized price by product type less the realized gain or loss on risk management contracts by production type.

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

Net debt as a percentage of enterprise value: Net debt as a percentage of enterprise value is calculated by dividing net debt by enterprise value.

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

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

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 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.

"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 gain (loss) on natural gas contracts per mcf" is comprised of the realized gain or loss on natural gas contracts, as determined in accordance with IFRS, divided by the Company's total natural gas sales production.

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

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

"Depletion and depreciation expense per boe" is comprised of depletion and depreciation 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.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

There were no changes in the Company's disclosure controls or procedures or internal controls over financial reporting (ICFR) during the period beginning on January 1, 2023 and ending on March 31, 2023 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived can provide only reasonable, but not absolute assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

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 "2023 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: forecast production and exploration and development capital expenditures for 2023 and the expectation that such expenditures will be funded from the Credit Facility and adjusted funds flow; drilling activities for 2023 including the number of gross and net wells to be drilled; cash costs estimates; projected abandonment and reclamation expenditures and the funding thereof; 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; 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 including inflationary pressures; 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 the war in 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, 2022 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
boe	barrels of oil equivalent
boe/d	barrels of oil equivalent per day
Mboe	thousands of barrels of oil equivalent
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
MMcf/d	million cubic feet per day
GJ	gigajoule

Volume Conversions:

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

Financial and Business Environment:

AECO	Alberta Energy Company
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
PP&E	Property, plant and equipment
WTI	West Texas Intermediate
WCS	Western Canadian Select

SUMMARY OF QUARTERLY RESULTS

<i>(\$ thousands, except as noted)</i>	Q1 2023	Q4 2022	Q3 2022	Q2 2022
Financial				
Oil and natural gas revenue	17,909	28,579	22,856	33,299
Net income (loss)	(265)	9,264	8,234	4,470
Per share – basic	—	0.14	0.13	0.07
Per share – diluted	—	0.12	0.11	0.06
Cash flow from operating activities	7,436	8,749	8,749	11,571
Adjusted funds flow ⁽¹⁾	8,876	14,207	9,642	10,505
Per share – basic ⁽²⁾	0.13	0.22	0.15	0.16
Capital expenditures ⁽¹⁾	9,111	115	22,596	4,361
Common shares (thousands)				
Weighted average – basic	65,978	65,883	65,016	63,641
Weighted average – diluted	65,978	75,090	74,607	74,721
Operating				
Daily average production				
Natural gas (MMcf/d)	30.8	33.0	26.9	29.9
Oil (bbl/d)	1,022	1,126	1,002	775
NGL (bbl/d)	495	508	390	364
Total (boe/d)	6,655	7,138	5,882	6,123
Perpetual Average Realized Prices⁽²⁾				
Natural gas (\$/Mcf)	3.17	5.78	4.74	7.92
Oil (\$/bbl)	63.39	71.14	87.24	117.20
NGL (\$/bbl)	73.81	78.36	85.48	104.71

<i>(\$ thousands, except as noted)</i>	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	51,151	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	71,266	70,461
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	2.59	2.25
Oil (\$/bbl)	95.55	73.93	65.19	55.75
NGL (\$/bbl)	87.86	73.44	65.37	55.48

⁽¹⁾ Non-GAAP measure. See "Non-GAAP and Other Financial Measures"

⁽²⁾ Non-GAAP ratio. See "Non-GAAP and Other Financial Measures"

PERPETUAL ENERGY INC.
Condensed Interim Consolidated Statements of Financial Position

As at	March 31, 2023	December 31, 2022
<i>(Cdn\$ thousands, unaudited)</i>		
Assets		
Current assets		
Accounts receivable	\$ 12,837	\$ 15,804
Marketable securities (note 3, 19)	2,723	1,814
Prepaid expenses and deposits	1,350	1,564
Product inventory	654	674
Risk management contracts (note 18)	597	3,847
	18,161	23,703
Property, plant and equipment (note 4)	172,951	170,644
Exploration and evaluation (note 5)	7,168	7,168
Risk management contracts (note 18)	15	—
Right-of-use assets (note 6)	1,987	864
Deferred tax asset	15,924	15,894
Total assets	\$ 216,206	\$ 218,273
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 20,541	\$ 18,962
Other liability (note 10)	554	532
Risk management contracts (note 18)	55	—
Lease liabilities (note 12)	632	705
Decommissioning obligations (note 13)	1,658	1,688
	23,440	21,887
Revolving bank debt (note 8)	10,846	14,909
Term loan (note 9)	2,541	2,524
Other liability (note 10)	2,472	2,470
Senior notes (note 11)	34,868	34,527
Risk management contracts (note 18)	110	—
Lease liabilities (note 12)	1,983	870
Decommissioning obligations (note 13)	24,180	25,764
Total liabilities	100,440	102,951
Equity		
Share capital (note 14)	98,683	98,615
Contributed surplus	47,412	46,801
Deficit	(30,329)	(30,094)
Total equity	115,766	115,322
Total liabilities and equity	\$ 216,206	\$ 218,273
Contingencies (note 7)		

See accompanying notes to the condensed interim consolidated financial statements.

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

	Three months ended March 31,	
	2023	2022
<i>(Cdn\$ thousands, except per share amounts, unaudited)</i>		
Revenue		
Oil and natural gas (note 16)	\$ 17,909	\$ 24,953
Royalties	(3,576)	(3,242)
	14,333	21,711
Unrealized loss on risk management contracts (note 18)	(3,401)	(10,994)
Realized gain on risk management contracts (note 18)	4,623	280
Other income (note 13)	—	20
	15,555	11,017
Expenses		
Production and operating	4,215	3,659
Transportation	1,092	692
Exploration and evaluation	11	18
General and administrative	3,554	2,079
Share-based payments (note 15)	679	614
Depletion and depreciation (note 4, 6)	5,366	4,018
Impairment reversal (note 4a)	—	(7,400)
Net income from operating activities	638	7,337
Finance expense (note 17)	(1,812)	(4,799)
Change in fair value of marketable securities (note 3)	909	4,624
Net income (loss) before income tax	\$ (265)	\$ 7,162
Deferred income tax recovery	30	—
Net income (loss) and comprehensive income (loss)	\$ (235)	\$ 7,162
Net income (loss) per share (note 14c)		
Basic	\$ —	\$ 0.11
Diluted	\$ —	\$ 0.10

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, except share amounts, unaudited)</i>					
Balance at December 31, 2022	65,944 \$	98,615 \$	46,801 \$	(30,094) \$	115,322
Net loss	—	—	—	(235)	(235)
Common shares issued (note 14 and 15)	61	62	(62)	—	—
Change in shares held in trust (note 14 and 15)	27	6	(6)	—	—
Share-based payments (note 15)	—	—	679	—	679
Balance at March 31, 2023	66,032 \$	98,683 \$	47,412 \$	(30,329) \$	115,766

	Share capital		Contributed surplus	Deficit	Total equity
	(thousands)	(\$thousands)			
<i>(Cdn\$ thousands, except share amounts, 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 14 and 15)	(436)	(308)	—	—	(308)
Share-based payments (note 15)	—	—	240	—	240
Balance at March 31, 2022	63,131 \$	94,501 \$	45,971 \$	(67,329) \$	73,143

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,
2023 2022

(Cdn\$ thousands, unaudited)

Cash flows from operating activities			
Net income (loss)	\$	(235) \$	7,162
Adjustments to add (deduct) non-cash items:			
Other income (note 13)		—	(20)
Depletion and depreciation (note 4)		5,366	4,018
Share-based payments (note 15)		679	240
Deferred income tax recovery		(30)	—
Unrealized loss on risk management contracts (note 18)		3,401	10,994
Change in fair value of marketable securities (note 3)		(909)	(4,624)
Finance expense (note 17)		604	3,747
Impairment reversal (note 4a)		—	(7,400)
Decommissioning obligations settled (note 13)		(251)	665
Change in non-cash working capital		(1,189)	(8,510)
Net cash flows from operating activities		7,436	6,272
Cash flows from (used in) financing activities			
Change in revolving bank debt, net of issue costs (note 8)		(4,063)	6,858
Payments of lease liabilities (note 12)		(196)	(169)
Payments of royalties		—	(1,393)
Shares purchased and held in trust (note 15)		—	(308)
Net cash flows from (used in) financing activities		(4,259)	4,988
Cash flows used in investing activities			
Capital expenditures (note 4)		(9,111)	(4,837)
Purchase of marketable securities (note 3)		—	(23)
Change in non-cash working capital		5,934	(7,490)
Net cash flows used in investing activities		(3,177)	(12,350)
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 March 31, 2023
(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 months ended March 31, 2023 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, 2022, 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, 2022 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, 2023.

3. MARKETABLE SECURITIES

		Amount (\$thousands)
December 31, 2021	\$	2,409
Purchase		39
Change in fair value of marketable securities		(634)
December 31, 2022	\$	1,814
Change in fair value of marketable securities		909
March 31, 2023	\$	2,723

As at March 31, 2023, the Company holds 58,500 shares of Rubellite Energy Inc. ("Rubellite") on behalf of its employees valued at \$0.1 million (December 31, 2022 - \$0.1 million) using the Rubellite common share price of \$2.35 per share (December 31, 2022 - \$1.85).

Perpetual holds 4.0 million Rubellite Share Purchase Warrants, with an exercise price of \$3.00 per share, that were valued at \$2.2 million as at March 31, 2023 (December 31, 2022 - \$1.4 million). 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:

	March 31, 2023	December 31, 2022
Dividend Yield (%)	—	—
Expected volatility (%)	40%	40%
Risk-free interest rate (%)	3.02%	3.28%
Contractual life (years)	3.4	3.7
Share price	\$2.35	\$1.85
Exercise price	\$3.00	\$3.00
Fair value	\$0.56	\$0.34

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

	Development and Production Assets		Corporate Assets		Total
Cost					
December 31, 2021	\$	574,534	\$	7,654	\$ 582,188
Additions		31,772		137	31,909
Change in decommissioning obligations related to PP&E (note 13)		(4,655)		—	(4,655)
Transfers from exploration and evaluation (note 5)		161		—	161
December 31, 2022	\$	601,812	\$	7,791	\$ 609,603
Additions		9,066		45	9,111
Change in decommissioning obligations related to PP&E (note 13)		(1,585)		—	(1,585)
March 31, 2023	\$	609,293	\$	7,836	\$ 617,129
Accumulated depletion and depreciation					
December 31, 2021	\$	(420,934)	\$	(7,634)	\$ (428,568)
Depletion and depreciation		(17,781)		(10)	(17,791)
Impairment reversal (a)		7,400		—	7,400
December 31, 2022	\$	(431,315)	\$	(7,644)	\$ (438,959)
Depletion and depreciation ⁽¹⁾		(5,211)		(8)	(5,219)
March 31, 2023	\$	(436,526)	\$	(7,652)	\$ (444,178)
Carrying amount					
December 31, 2022	\$	170,497	\$	147	\$ 170,644
March 31, 2023	\$	172,767	\$	184	\$ 172,951

⁽¹⁾ During the period ended March 31, 2023, depletion and depreciation expense includes a nominal amount which has been capitalized to inventory (March 31, 2022 - nil).

For the period ended March 31, 2023, \$0.8 million (March 31, 2022 – \$0.6 million) of direct general and administrative expenses were capitalized. Future development costs for the period ended March 31, 2023 of \$98.9 million (December 31, 2022 – \$104.6 million) were included in the depletion calculation. Depletion was \$5.2 million (March 31, 2022 - \$3.9 million) on development and production assets for the three month period ending March 31, 2023.

a) Cash-generating units and impairment reversals

There were no indicators of impairment for the Company's cash generating units ("CGUs") as at March 31, 2023 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 that the recoverable amount of the Eastern Alberta CGU exceeded the CGU's carrying value, resulting in all previous Eastern Alberta CGU impairment, net of depletion, of \$7.4 million being reversed. No historical impairments remain for the Eastern Alberta CGU.

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

	March 31, 2023		December 31, 2022	
Balance, beginning of period	\$	7,168	\$	7,329
Transfers to property, plant and equipment (note 4)		—		(161)
Balance, end of period	\$	7,168	\$	7,168

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 development and production assets in PP&E.

At March 31, 2023, 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.

At March 31, 2022, 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 and the impairment test required at transfer, there were no impairments recorded to E&E in the first quarter of 2022.

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				
December 31, 2021	\$ 1,591	\$ 610	\$ 247	\$ 2,448
Additions	—	181	—	181
December 31, 2022	\$ 1,591	\$ 791	\$ 247	\$ 2,629
Additions	1,127	109	—	1,236
March 31, 2023	\$ 2,718	\$ 900	\$ 247	\$ 3,865
Accumulated depreciation				
December 31, 2021	\$ (755)	\$ (349)	\$ (204)	\$ (1,308)
Depreciation	(258)	(170)	(29)	(457)
December 31, 2022	\$ (1,013)	\$ (519)	\$ (233)	\$ (1,765)
Depreciation	(64)	(42)	(7)	(113)
March 31, 2023	\$ (1,077)	\$ (561)	\$ (240)	\$ (1,878)
Carrying amount				
December 31, 2022	\$ 578	\$ 272	\$ 14	\$ 864
March 31, 2023	\$ 1,641	\$ 339	\$ 7	\$ 1,987

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 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 have 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.

The Trustee filed its Amended Statement of Claim with the Court of King's Bench of Alberta on October 14, 2022. Perpetual filed its Statement of Defence to the Amended Statement of Claim on December 12, 2022. The Trustee filed its Reply to Defence on March 3, 2023. On March 30, 2023, Perpetual filed an Application to Dismiss or Stay the Trustee's Amended Application for Summary Judgment. On April 6, 2023, the Court of King's Bench of Alberta granted Perpetual's application and stayed the Trustee's proposed amended application for summary judgment.

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 \$30.0 million (December 31, 2022 - \$30.0 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 May 31, 2023.

As at March 31, 2023, \$10.8 million was drawn (December 31, 2022 - \$14.9 million) and \$1.2 million of letters of credit had been issued (December 31, 2022 - \$1.2 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 March 31, 2023 was 8.2%. For the period ended March 31, 2023, 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 March 31, 2023, 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, 2023		December 31, 2022	
			Principal	Carrying Amount	Principal	Carrying amount
Term loan	December 31, 2024	8.1%	\$ 2,671	\$ 2,541	\$ 2,671	\$ 2,524

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

At March 31, 2023, 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 ending December 31, 2023. The payment for 2021 was capped at \$1.3 million; the payment for 2022 was 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. For 2022, \$1.3 million was earned of which \$0.4 million is to be paid on June 30, 2023 and the remainder on June 30, 2024. This leaves a maximum remaining total obligation to be potentially earned for 2023 of \$1.9 million. At March 31, 2023, the Company estimated the maximum total remaining obligation to be paid of \$3.3 million, and after discounting, the fair value of the contingent liability was recorded as \$3.0 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, 2023		December 31, 2022	
Balance, beginning of period	\$	3,002	\$	1,387
Cash payments		—		(63)
Change in fair value		24		1,678
Balance, end of period	\$	3,026	\$	3,002

	March 31, 2023		December 31, 2022	
Current	\$	554	\$	532
Non-current		2,472		2,470
Total other liability	\$	3,026	\$	3,002

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, 2023, an unrealized loss of a nominal amount (Q1 2022 - \$1.5 million) is included in non-cash finance expense related to the change in fair value of other liability (note 17).

At March 31, 2023, 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 current gas price would not exceed the minimum price and therefore would have no impact on the gas obligation at March 31, 2023. If forecasted crude oil commodity prices increased or decreased by \$5.00 per bbl the fair value of the other liability and net income for the period would change by \$0.1 and \$0.7 million, respectively.

11. SENIOR NOTES

	Maturity date	Interest rate	March 31, 2023		December 31, 2022	
			Principal	Carrying Amount	Principal	Carrying amount
Senior notes	January 23, 2025	8.75%	\$ 35,647	\$ 34,868	\$ 35,647	\$ 34,527

The secured third lien Senior Notes have been issued under a trust indenture and 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 Senior Notes (a "PIK Interest Payment").

The Company satisfied the January 23, 2023 semi-annual interest payment of \$1.6 million by making a cash payment (January 23, 2022 - \$1.6 million cash payment; July 23, 2022 - \$1.6 million cash payment).

At March 31, 2023, the Senior Notes are recorded at the present value of future cash flows, net of \$0.8 million in issue and principal discount costs which are amortized over the remaining term using a weighted average effective interest rate of 13.9%.

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, 2023, 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 Senior Notes outstanding. An entity that is associated with the Company's CEO holds an additional \$10.3 million of the Senior Notes outstanding.

12. LEASE LIABILITIES

	March 31, 2023		December 31, 2022	
Balance, beginning of year	\$	1,575	\$	2,102
Additions		1,236		181
Interest on lease liabilities (note 17)		23		116
Payments		(219)		(824)
Total lease liabilities	\$	2,615	\$	1,575
Current	\$	632	\$	705
Non-current		1,983		870
Total lease liabilities	\$	2,615	\$	1,575

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, 2023 were between 4.3% and 6.6% (2022 – 4.3% and 6.6%).

13. DECOMMISSIONING OBLIGATIONS

The following significant assumptions were used to estimate decommissioning obligations:

	March 31, 2023		December 31, 2022	
Obligations incurred, including acquisitions	\$	92	\$	687
Change in risk free interest rate		(1,677)		(5,325)
Change in estimates		—		(17)
Change in decommissioning obligations related to PP&E (note 4)		(1,585)		(4,655)
Obligations settled (cash)		(251)		(1,199)
Obligations settled ⁽¹⁾ (non-cash)		—		(348)
Accretion (note 17)		222		727
Change in decommissioning obligations		(1,614)		(5,475)
Balance, beginning of period		27,452		32,927
Balance, end of period	\$	25,838	\$	27,452
Decommissioning obligations – current ⁽²⁾	\$	1,658	\$	1,688
Decommissioning obligations – non-current		24,180		25,764
Total decommissioning obligations	\$	25,838	\$	27,452

⁽¹⁾ During the three months ended March 31, 2023, obligations settled (non-cash) of nil (Q1 2022 – nominal) were funded by payments made directly to Perpetual's service providers from the Alberta Site Rehabilitation Program ("SRP"). These amounts have been recorded as other income. The SRP program ended on December 31, 2022.

⁽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:

	March 31, 2023	December 31, 2022
Undiscounted obligations	\$ 31,342	\$ 32,664
Average risk-free rate	3.0%	3.3%
Inflation rate	1.7%	2.1%
Expected timing of settling obligations	1 to 25 years	1 to 25 years

14. SHARE CAPITAL

	March 31, 2023		December 31, 2022	
	Shares (thousands)	Amount (\$thousands)	Shares (thousands)	Amount (\$thousands)
Balance, beginning of period	65,944	\$ 98,615	63,567	\$ 94,809
Issued pursuant to share-based payment plans	61	62	3,174	4,611
Shares held in trust purchased (b)	—	—	(1,334)	(1,307)
Shares held in trust issued (b)	27	6	537	502
Balance, end of period	66,032	\$ 98,683	65,944	\$ 98,615

a) Authorized

Authorized capital consists of an unlimited number of common shares.

b) Shares held in trust

The Company has compensation agreements in place with employees whereby they may be entitled to receive shares of the Company purchased on the open market by a trustee (note 15). Share capital is presented net of the number and cumulative purchase cost of shares held by the trustee that have not yet been issued to employees. As at March 31, 2023, 1.3 million shares were held in trust (December 31, 2022 – 1.3 million).

c) Per share information

<i>(thousands, except per share amounts)</i>	Three months ended March 31,	
	2023	2022
Net income (loss) – basic and diluted	\$ (235)	\$ 7,162
Weighted average shares		
Issued common shares	65,970	64,099
Effect of the change in shares held in trust	8	(883)
Weighted average common shares outstanding – basic ⁽¹⁾	65,978	63,216
Weighted average common shares outstanding – diluted ⁽¹⁾⁽²⁾	65,978	74,348
Net income (loss) per share – basic	\$ —	\$ 0.11
Net income (loss) per share – diluted	\$ —	\$ 0.10

⁽¹⁾ Shares outstanding are presented net of 1.3 million shares held in trust (Q1 2022 - 0.9 million).

⁽²⁾ For the three months ended March 31, 2023, 17.5 million potentially issuable common shares through the share-based compensation plan (Q1 2022 - 5.5 million) were excluded as they as the Company had a net loss.

15. SHARE-BASED PAYMENTS

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

	Three months ended March 31,	
	2023	2022
Compensation awards	\$ 241	\$ 153
Share options	90	22
Performance share rights	348	439
Share-based payments⁽¹⁾	\$ 679	\$ 614

⁽¹⁾ For the three months ended March 31, 2023, the Company recorded nil (Q1 2022 - \$0.3 million) related to equity settled transactions that settled in cash.

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

<i>(thousands)</i>	Compensation awards					Total
	Deferred options	Deferred shares	Share options	Performance share rights ⁽¹⁾	Restricted rights	
December 31, 2021	5,476	3,158	4,077	3,065	—	15,776
Granted	1,457	792	1,298	833	3,125	7,505
Exercised for common shares	—	—	(49)	—	(3,125)	(3,174)
Exercised for shares held in trust	(780)	(280)	—	—	—	(1,060)
Exercised for restricted rights	—	(760)	—	(2,365)	—	(3,125)
Performance adjustment ⁽⁴⁾	—	—	—	1,014	—	1,014
Cancelled/forfeited	(267)	(42)	(1,725)	—	—	(2,034)
December 31, 2022	5,886	2,868	3,601	2,547	—	14,902
Granted ⁽²⁾⁽³⁾	—	36	35	906	61	1,038
Exercised for common shares	(50)	—	—	—	(61)	(111)
Exercised for restricted rights	—	(61)	—	—	—	(61)
Performance adjustment ⁽⁴⁾	—	—	—	1,715	—	1,715
March 31, 2023	5,836	2,843	3,636	5,168	—	17,483

⁽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, 2023, nil has been accrued pursuant to cash-settled share-based payment awards (Q1 2022 – \$0.3 million).

⁽²⁾ Share options granted during the three months ended March 31, 2023 have an exercise price of \$0.68 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, 2023, 0.9 million performance share rights, 0.1 million restricted share rights, and a nominal amount of deferred options, deferred shares and share options 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.

16. REVENUE

The Company sells its production pursuant to fixed or variable price contracts. The transaction price for variable priced contracts is based on the commodity price, adjusted for quality, location, or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Under the contracts, the Company is required to deliver fixed or variable volumes of conventional natural gas, heavy crude oil or NGL as may be applicable to the contract counterparty. Revenue is recognized when a unit of production is delivered to the contract counterparty. The amount of revenue recognized is based on the agreed transaction price, whereby any variability in revenue relates specifically to the Company's efforts to transfer production, and therefore the resulting revenue is allocated to the production delivered in the period during which the variability occurs. As a result, none of the variable revenue is considered constrained. Conventional natural gas, heavy crude oil and NGL are mostly sold under contracts of varying price and volume terms of up to one year. Revenues are typically collected on the 25th day of the month following production.

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

Market/Pricing Point	April 1, 2023 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 March 31,	
	2023	2022
Oil and natural gas revenue		
Natural gas	\$ 8,789	\$ 15,929
Oil	5,833	5,861
NGL	3,287	3,163
Total oil and natural gas revenue	\$ 17,909	\$ 24,953

Included in accounts receivable at March 31, 2023 is \$6.0 million of accrued oil and natural gas revenue related to March 2023 production (December 31, 2022 – \$10.0 million related to December 2022 production).

17. FINANCE EXPENSE

The components of finance expense are as follows:

	Three months ended March 31,	
	2023	2022
Cash finance expense		
Interest on revolving bank debt	\$ 359	\$ 162
Interest on term loan	54	54
Interest on Senior Notes	772	804
Interest on lease liabilities (note 12)	23	32
Total cash finance expense	1,208	1,052
Non-cash finance expense		
Amortization of debt issue costs	358	515
Accretion on decommissioning obligations (note 13)	222	136
Change in fair value of other liability (note 10)	24	1,501
Change in fair value of royalty obligations ⁽¹⁾	—	1,595
Total non-cash finance expense	604	3,747
Finance expense recognized in net income	\$ 1,812	\$ 4,799

⁽¹⁾ The retained East Edson royalty obligation ended on December 31, 2022.

18. FINANCIAL RISK MANAGEMENT

The following table summarizes the mark to market value of outstanding risk management contracts by type:

	March 31, 2023	December 31, 2022
Natural gas contracts	\$ (165)	\$ 2,841
Foreign exchange contracts	89	30
Oil contracts	523	976
Risk management contracts	447	3,847
Risk management contracts – current asset	597	3,847
Risk management contracts – non-current asset	15	—
Risk management contracts – current liability	(55)	—
Risk management contracts – non-current liability	(110)	—
Risk management contracts	\$ 447	\$ 3,847

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

	Three months ended March 31,	
	2023	2022
Unrealized gain on foreign exchange contracts	\$ 59	\$ —
Unrealized loss on natural gas contracts	(3,006)	(7,004)
Unrealized loss on oil contracts	(454)	(3,990)
Unrealized loss on fair value of derivatives	(3,401)	(10,994)
Realized gain on foreign exchange contracts	31	—
Realized gain on natural gas contracts	4,289	1,267
Realized gain (loss) on oil contracts	303	(987)
Realized gain on financial derivatives	4,623	280
Change in fair value of derivatives	\$ 1,222	\$ (10,714)

Natural gas contracts

At March 31, 2023 the Company had entered into the following natural gas risk management contracts at AEEO:

Commodity	Volumes sold	Term	Reference/Index	Contract Traded Bought/sold	Market Price
Natural gas	5,000 GJ/d	Nov 1, 2023 - Mar 31, 2024	AEEO 5A (CAD\$/GJ)	Swap - sold	\$3.42
Natural gas	5,000 GJ/d	Apr 1, 2024 - Oct 31, 2024	AEEO 5A (CAD\$/GJ)	Swap - sold	\$3.00

Natural gas contracts - sensitivity analysis

At March 31, 2023, 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 \$0.5 million due to changes in the fair value of risk management contracts. Fair value sensitivity was based on published forward AEEO prices.

Oil contracts

At March 31, 2023, the Company had entered the following oil risk management contracts:

Commodity	Volumes sold	Term	Reference/ Index	Contract Traded Bought /sold	Market Price
Crude oil	100 bbl/d	Apr 1 - Dec 31, 2023	WTI (US\$/bbl)	Swap - sold	\$89.15
Crude oil	200 bbl/d	Apr 1 - Dec 31, 2023	WTI (US\$/bbl)	Swap - sold	\$77.40
Crude oil	200 bbl/d	Apr 1 - Dec 31, 2023	WCS (US\$/bbl)	Differential	(\$17.40)
Crude oil	250 bbl/d	Apr 1 - Dec 31, 2023	WCS (US\$/bbl)	Differential	(\$17.45)
Crude oil	100 bbl/d	Jul 1 - Dec 31, 2023	WCS (US\$/bbl)	Differential	(\$16.20)
Crude oil	100 bbl/d	Apr 1 - Dec 31, 2023	WCS (CAD\$/bbl)	Differential	(\$17.30)
Crude oil	250 bbl/d	Jan 1 - Dec 31, 2024	WCS (US\$/bbl)	Differential	(\$17.50)

Subsequent to March 31, 2023, the Company has entered into the following oil risk management contracts:

Commodity	Volumes sold	Term	Reference/ Index	Contract Traded Bought /sold	Market Price
Crude oil	100 bbl/d	Jan 1 - Dec 31 2024	WCS (US\$/bbl)	Differential	(\$14.65)
Crude oil	200 bbl/d	May 1 - Dec 31, 2023	WTI (US\$/bbl)	Swap - sold	\$78.95

Oil contracts - sensitivity analysis

As at March 31, 2023, 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 \$0.5 million due to changes in the fair value of risk management contracts.

Foreign exchange contracts

At March 31, 2023, the Company had entered the following USD/CAD foreign exchange swaps which settle in CAD\$:

Contract	Notional amount	Term	Price (US\$/CAD\$)
Average rate forward (US\$/CAD\$)	\$250,000 US\$/month	Apr 1 – Dec 31, 2023	1.3700
Average rate forward (US\$/CAD\$)	\$250,000 US\$/month	Apr 1 – Dec 31, 2023	1.3600
Average rate forward (US\$/CAD\$)	\$200,000 US\$/month	Apr 1 – Dec 31, 2023	1.3029
Average rate forward (US\$/CAD\$)	\$500,000 US\$/month	Apr 1 – Dec 31, 2023	1.3710

Foreign exchange contracts - sensitivity analysis

As at March 31, 2023, 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 \$0.6 million due to changes in the fair value of risk management contracts.

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, 2023	Gross	Netting ⁽¹⁾	Carrying Amount	Fair value		
				Level 1	Level 2	Level 3
Financial assets						
Fair value through profit and loss						
Marketable securities	\$ 2,723	\$ —	\$ 2,723	\$ —	\$ 2,723	\$ —
Risk management contracts	918	(306)	612	—	612	—
Financial liabilities						
Financial liabilities at amortized cost						
Revolving bank debt	(10,846)	—	(10,846)	(10,846)	—	—
Senior notes	(34,868)	—	(34,868)	—	(34,868)	—
Term loan	(2,541)	—	(2,541)	—	—	(2,541)
Fair value through profit and loss						
Other liability	(3,026)	—	(3,026)	—	—	(3,026)
Risk management contracts	(471)	306	(165)	—	(165)	—

⁽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.

19. RELATED PARTIES

Perpetual and Rubellite are considered related parties as certain officers and directors are in a position of control over Perpetual while also having significant influence and being considered key management personnel of Rubellite in addition to there being a relationship under the Management and Operating Services Agreement ("MSA"). During the three months ended March 31, 2023 Perpetual billed and/or incurred on behalf of Rubellite net transactions, which are considered to be normal course of oil and gas operations, totaling \$1.6 million (three months ended March 31, 2021 - \$1.3 million). Included within this amount are \$0.8 million (three months ended March 31, 2021 - \$0.3 million) of costs billed under the MSA. The Company recorded an accounts receivable of \$0.6 million owing from Rubellite as at March 31, 2023 (December 31, 2022 - accounts receivable of \$0.6 million).

Investments made in a private energy technology company, where the Company's CEO is a director, were valued at \$0.4 million at March 31, 2023 (December 31, 2021 - \$0.4 million). There were no amounts outstanding or receivable at March 31, 2023 (December 31, 2022 - nil).

DIRECTORS

Susan L. Riddell Rose

President, Chief Executive Officer and Director

Linda A. Dietsche

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

Steven L. Spence

Independent Director⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾

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 and Director

Ryan M. Goosen

Vice President, Business Development and Land

Jeffrey R. Green

Vice President, Corporate and Engineering Services

Linda L. McKean

Vice President, Production and Development

Marcello M. Rapini

Vice President, Marketing

Karl H. Rumpf

Vice President, Exploration and New Ventures

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AUDITORS

KPMG LLP

BANKERS

ATB Financial

Bank of Montreal

Bank of Nova Scotia

RESERVE EVALUATION CONSULTANTS

McDaniel & Associates Consultants Ltd.

REGISTRAR AND TRANSFER AGENT

Odyssey Trust Company