



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

THREE MONTHS ENDED MARCH 31, 2023

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					
	Deferred options	Deferred shares	Share options	Performance share rights ⁽¹⁾	Restricted rights	Total
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 AECO:

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

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 AECO 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).