CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

THREE MONTHS ENDED MARCH 31, 2024

PERPETUAL ENERGY INC.
Condensed Interim Consolidated Statements of Financial Position

As at		March 31, 2024		December 31, 2023
(*Cdn$ thousands, unaudited*)				
Assets				
Current assets				
Cash	**$**	**3,015**	$	18,272
Deposit held in escrow (note 8b)		**10,000**		—
Accounts receivable		**10,795**		16,489
Marketable securities (note 3)		**2,778**		1,663
Prepaid expenses and deposits		**1,871**		1,886
Risk management contracts (note 17)		**5,781**		6,519
		34,240		44,829
Property, plant and equipment (note 4)		**124,409**		127,852
Exploration and evaluation (note 5)		**6,997**		6,997
Risk management contracts (note 17)		**676**		2,602
Right-of-use assets (note 6)		**4,594**		3,850
Deferred tax asset (note 18)		**21,160**		13,827
Total assets	**$**	**192,076**	$	199,957
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**12,303**	$	21,188
Term loan (note 10)		**—**		2,593
Other liability (note 11)		**2,788**		2,788
Lease liabilities (note 7)		**448**		508
Decommissioning obligations (note 8a)		**885**		1,527
Other provision (note 8b)		**13,624**		—
Senior notes (note 12)		**7,048**		—
		37,096		28,604
Senior notes (note 12)		**26,083**		33,099
Lease liabilities (note 7)		**4,662**		3,836
Decommissioning obligations (note 8a)		**12,565**		13,087
Other provision (note 8b)		**14,335**		—
Total liabilities		**94,741**		78,626
Equity				
Share capital (note 13)		**98,990**		98,983
Contributed surplus (note 14)		**47,387**		46,826
Deficit		**(49,042)**		(24,478)
Total equity		**97,335**		121,331
Total liabilities and equity	**$**	**192,076**	$	199,957
Subsequent events (note 12, 17)				

See accompanying notes to the condensed interim consolidated financial statements.

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

	Three months ended March 31,	
	2024	2023
(*Cdn$ thousands, except per share amounts, unaudited*)		
Revenue		
Oil and natural gas (note 15)	**$ 8,890**	$ 17,811
Royalties	**(1,348)**	(3,576)
	7,542	14,235
Unrealized loss on risk management (note 17)	**(2,664)**	(3,401)
Realized gain on risk management (note 17)	**1,225**	4,623
Other income	**39**	135
	6,142	15,592
Expenses		
Production and operating	**1,769**	4,252
Transportation	**674**	1,092
Exploration and evaluation (note 5)	**8**	11
General and administrative	**3,236**	3,554
Share-based payments (note 14)	**568**	679
Depletion and depreciation (note 4, 6)	**3,953**	5,366
Income (loss) from operating activities	**(4,066)**	638
Finance expense (note 16)	**(987)**	(1,812)
Provision expense (note 8b)	**(27,959)**	—
Change in fair value of marketable securities (note 3)	**1,115**	909
Loss before income tax	**$ (31,897)**	$ (265)
Deferred income tax recovery (note 18)	**7,333**	30
Net loss and comprehensive loss	**$ (24,564)**	$ (235)
Net loss per share (note 13c)		
Basic	**$ (0.36)**	$ 0.00
Diluted	**$ (0.36)**	$ 0.00

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)		*($thousands)*						
(Cdn$ thousands, except share amounts, unaudited)									
Balance at December 31, 2023	67,467	$	98,983	$	46,826	$	(24,478)	$	121,331
Net loss	—		—		—		(24,564)		(24,564)
Change in shares held in trust (note 13, 14)	(10)		7		(7)		—		—
Share-based payments (note 14)	—		—		568		—		568
Balance at March 31, 2024	**67,457**	**$**	**98,990**	**$**	**47,387**	**$**	**(49,042)**	**$**	**97,335**

	Share capital				Contributed surplus		Deficit		Total equity
	(thousands)		*($thousands)*						
(Cdn$ thousands, except share amounts, unaudited)									
Balance at December 31, 2022	65,944	$	98,615	$	46,801	$	(30,094)	$	115,322
Net loss	—		—		—		(235)		(235)
Common shares issued (note 13, 14)	61		62		(62)		—		—
Change in shares held in trust (note 13, 14)	27		6		(6)		—		—
Share-based payments (note 14)	—		—		679		—		679
Balance at March 31, 2023	**66,032**	**$**	**98,683**	**$**	**47,412**	**$**	**(30,329)**	**$**	**115,766**

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,	
	2024	2023
(*Cdn$ thousands, unaudited*)		
Cash flows from (used in) operating activities		
Net loss	**$ (24,564)**	$ (235)
Adjustments to add (deduct) non-cash items:		
Other provision (note 8b)	**27,959**	—
Depletion and depreciation (note 4, 6)	**3,953**	5,366
Share-based payments (note 14)	**568**	679
Deferred income tax recovery (note 18)	**(7,333)**	(30)
Unrealized loss on risk management contracts (note 17)	**2,664**	3,401
Change in fair value of marketable securities (note 3)	**(1,115)**	(909)
Finance expense (note 16)	**219**	604
Decommissioning obligations settled (note 8a)	**(1,195)**	(251)
Change in non-cash working capital	**(6,424)**	(1,189)
Net cash flows from (used in) operating activities	**(5,268)**	7,436
Cash flows used in financing activities		
Change in revolving bank debt, net of issue costs (note 9)	**—**	(4,063)
Payments of lease liabilities (note 7)	**(126)**	(196)
Repayment of Term loan (note 10)	**(2,670)**	—
Net cash flows used in financing activities	**(2,796)**	(4,259)
Cash flows used in investing activities		
Capital expenditures (note 4)	**(441)**	(9,111)
Change in non-cash working capital	**(6,752)**	5,934
Net cash flows used in investing activities	**(7,193)**	(3,177)
Change in cash	**(15,257)**	—
Cash, beginning of period	**18,272**	—
Cash, end of period	**$ 3,015**	$ —

See accompanying notes to the condensed interim consolidated financial statements.

(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 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 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, 2023, which were prepared in conformity with IFRS Accounting Standards 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, 2023 have been applied in the preparation of these condensed interim consolidated financial statements.

Prior period results have been adjusted for a reclassification between production and operating expense, oil and natural gas revenue and other income.

These financial statements were approved and authorized for issue by the Board of Directors on May 7, 2024.

3. MARKETABLE SECURITIES

		March 31, 2024		December 31, 2023
Balance, beginning of period	**$**	**1,663**	$	1,814
Change in fair value of marketable securities		**1,115**		(151)
Balance, end of period	**$**	**2,778**	$	1,663

As at March 31, 2024, the Company held 58,500 shares of Rubellite Energy Inc. ("Rubellite") in trust, valued at $0.2 million (December 31, 2023 - $0.1 million) using the Rubellite common share price of $2.60 per share at March 31, 2024 (December 31, 2023 - $2.01 per share).

Investments made in a private technology company were valued at $0.4 million at March 31, 2024 (December 31, 2023 - $0.4 million) (note 19).

Perpetual holds 4.0 million Rubellite Share Purchase Warrants that expire on October 5, 2026, with an exercise price of $3.00 per share, that were valued at $2.3 million as at March 31, 2024 (December 31, 2023 - $1.2 million) which can be exercised by Perpetual at anytime prior to the expiration date. 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 and as at period end:

	March 31, 2024	December 31, 2023
Dividend Yield (%)	**—**	—
Expected volatility (%)	**40%**	40%
Risk-free interest rate (%)	**3.34%**	3.02%
Contractual life (years)	**2.4**	2.7
Share price	**$2.60**	$2.01
Exercise price	**$3.00**	$3.00
Fair value	**$0.57**	$0.30

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

	Development and Production Assets	Corporate Assets	Total
Cost			
December 31, 2022	$ 601,812	$ 7,791	$ 609,603
Additions	22,464	5,141	27,605
Change in decommissioning obligations related to PP&E (note 8a)	(252)	—	(252)
Dispositions (note 4b)	(159,123)		(159,123)
December 31, 2023	$ 464,901	$ 12,932	$ 477,833
Additions	(130)	571	441
Change in decommissioning obligations related to PP&E (note 8a)	(79)	—	(79)
March 31, 2024	**$ 464,692**	**$ 13,503**	**$ 478,195**
Accumulated depletion and depreciation			
December 31, 2022	$ (431,315)	$ (7,644)	$ (438,959)
Depletion and depreciation	(23,017)	(79)	(23,096)
Dispositions (note 4b)	112,074	—	112,074
December 31, 2023	$ (342,258)	$ (7,723)	$ (349,981)
Depletion and depreciation	(3,615)	(190)	(3,805)
March 31, 2024	**$ (345,873)**	**$ (7,913)**	**$ (353,786)**
Carrying amount			
December 31, 2023	$ 122,643	$ 5,209	$ 127,852
March 31, 2024	**$ 118,819**	**$ 5,590**	**$ 124,409**

Future development costs for the period ended March 31, 2024 of $97.6 million (December 31, 2023 – $97.6 million) were included in the depletion calculation. Depletion was $3.6 million (March 31, 2023 - $5.2 million) on development and production assets for the three months ended March 31, 2024.

a) Impairment

There were no indicators of impairment for the Company's cash generating unit ("CGU") as at March 31, 2024 and December 31, 2023 therefore, an impairment test was not performed.

b) Dispositions

On November 22, 2023, the Company disposed of assets in the Mannville area which comprise substantially all of the production attributed to the Company's Eastern Alberta CGU ("the Mannville Disposition") for $35.8 million before customary purchase price adjustments of $2.1 million resulting in total cash consideration of $33.7 million. The disposal resulted in a loss of $3.3 million and a reduction in decommissioning obligations of $11.8 million.

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

	March 31, 2024	December 31, 2023
Balance, beginning of period	**$ 6,997**	$ 7,168
Exploration and evaluation expense	**—**	(171)
Balance, end of period	**$ 6,997**	$ 6,997

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, 2024, there were no triggers identified therefore, an impairment test was not performed.

In 2023, the Company wrote-off certain land with a value of $0.2 million where the mineral rights expired in the period.

6. RIGHT-OF-USE ASSETS

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

		Head office		Vehicles		Other leases		Total
Cost								
January 1, 2023	$	1,591	$	791	$	247	$	2,629
Additions		3,142		228		107		3,477
December 31, 2023	$	4,733	$	1,019	$	354	$	6,106
Additions		892		—		—		892
March 31, 2024	**$**	**5,625**	**$**	**1,019**	**$**	**354**	**$**	**6,998**
Accumulated depreciation								
January 1, 2023	$	(1,013)	$	(519)	$	(233)	$	(1,765)
Depreciation		(280)		(179)		(32)		(491)
December 31, 2023	$	(1,293)	$	(698)	$	(265)	$	(2,256)
Depreciation		(109)		(30)		(9)		(148)
March 31, 2024	**$**	**(1,402)**	**$**	**(728)**	**$**	**(274)**	**$**	**(2,404)**
Carrying amount								
December 31, 2023	$	3,440	$	321	$	89	$	3,850
March 31, 2024	**$**	**4,223**	**$**	**291**	**$**	**80**	**$**	**4,594**

7. LEASE LIABILITIES

		March 31, 2024		December 31, 2023
Balance, beginning of period	**$**	**4,344**	$	1,575
Additions (note 6)		**892**		3,460
Interest on lease liabilities (note 16)		**69**		148
Payments		**(195)**		(839)
Total lease liabilities	**$**	**5,110**	$	4,344
Current	**$**	**448**	$	508
Non-current		**4,662**		3,836
Total lease liabilities	**$**	**5,110**	$	4,344

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, 2024 were between 4.3% and 6.6% (2023 – 4.3% and 6.6%).

8. PROVISIONS

a) Decommissioning Obligations

		March 31, 2024		December 31, 2023
Obligations incurred, including acquisitions	**$**	**—**	$	274
Change in rates		**(79)**		(3,245)
Change in estimates		**—**		2,719
Change in decommissioning obligations related to PP&E (note 4)		**(79)**		(252)
Obligations settled		**(1,195)**		(1,566)
Obligations disposed (note 4b)		**—**		(11,813)
Accretion (note 16)		**110**		793
Change in decommissioning obligations		**(1,164)**		(12,838)
Balance, beginning of period		**14,614**		27,452
Balance, end of period	**$**	**13,450**	$	14,614
Decommissioning obligations – current[1]	**$**	**885**	$	1,527
Decommissioning obligations – non-current		**12,565**		13,087
Total decommissioning obligations	**$**	**13,450**	$	14,614

(1) 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 loss and comprehensive loss (note 16). 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, 2024		December 31, 2023
Undiscounted obligations	**$**	**16,748**	$	17,943
Average risk-free rate		**3.3%**		3.0%
Inflation rate		**1.8%**		1.6%
Expected timing of settling obligations		**1 to 25 years**		1 to 25 years

b) Other Provision

On August 3, 2018, Perpetual received a Statement of Claim that was filed by PricewaterhouseCoopers Inc., LIT in its capacity as trustee in bankruptcy (the "Trustee") of Sequoia Resources Corp. ("Sequoia"), with the Alberta Court of King's Bench (the "Court"), against Perpetual (the "Sequoia Litigation"). The Claim related to a transaction when, on October 1, 2016, Perpetual closed the disposition of shallow conventional natural gas assets in Eastern Alberta (the "Sequoia Disposition").

After several years of litigation, Perpetual entered into an agreement (the "Settlement Agreement") on March 22, 2024 with the Trustee to resolve the Sequoia Litigation without any party admitting liability, wrongdoing or violation of law, regulations, public policy or fiduciary duties.

Pursuant to the Settlement Agreement, and subject to Court approval, the Company will make an aggregate payment of $30.0 million (the "Settlement Principal") spread out over several years, consisting of an initial payment of $10.0 million, and annual installments of $3.75 million until the total amount of the Settlement Principal is paid. Amounts owing pursuant to the Settlement Agreement have second lien security behind the Company's Credit Facility. The initial payment of $10.0 million has been recognized as deposit held in escrow until Court approval has been received.

Subject to the payment of all amounts under the Settlement Agreement, interest prior to March 27, 2026 will accrue and be forgiven. As of March 28, 2026, interest will accrue and be payable on the outstanding Settlement Principal at an interest rate equal to the applicable Bank of Canada prime rate on the date of payment. The Company is able to pre-pay all, or any portion, of the outstanding balance of the Settlement Principal at any time without bonus or penalty.

		March 31, 2024
Other provisions – current	**$**	**13,624**
Other provisions – non-current		**14,335**
Total other provisions	**$**	**27,959**

The following assumptions were used to estimate the Company's $28.0 million provision:

		March 31, 2024
Undiscounted obligations	**$**	**30,000**
Average risk-free rate		**3.5%**
Expected timing of settling obligations		**6 years**

9. REVOLVING BANK DEBT

In March 2024, the Company's first lien credit facility (the "Credit Facility") was amended to provide the first lien lenders' consent to resolve the Sequoia Litigation, conditional on completion of the Senior Notes redemption and Court approval.

At March 31, 2024, the Company's Credit Facility had a borrowing limit of $30.0 million (December 31, 2023 - $30.0 million) with an initial term to May 31, 2024. The initial term may be extended to May 31, 2025 subject to approval by the syndicate. If the facility is not extended, all outstanding balances would be repayable on May 31, 2025. The next semi-annual borrowing base redetermination is scheduled to be completed on or before May 31, 2024.

The maturity date of the Company's third lien Senior Notes (the "Senior Notes") is January 23, 2025 (note 12). Under the Credit Facility agreement, if by November 30, 2024, the January 23, 2025 maturity date of the Senior Notes has not been extended, by a period of at least two years, or refinanced with the maturity date of the refinanced debt being at least January 23, 2027, the maturity date of the Credit Facility is November 30, 2024 and any outstanding balance would become repayable at that time.

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

As at March 31, 2024, nil was drawn (December 31, 2023 – nil) and $1.3 million of letters of credit had been issued (December 31, 2023 – $1.3 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%.

As at March 31, 2024, the Credit Facility was not subject to any financial covenants and the Company was in compliance with all customary non-financial covenants.

10. TERM LOAN

			March 31, 2024		December 31, 2023	
	Maturity date	**Interest rate**	**Principal**	**Carrying Amount**	Principal	Carrying amount
Term loan	December 31, 2024	8.1%	**$ —**	**$ —**	$ 2,671	$ 2,593

In March 2024, Perpetual fully repaid and cancelled its second lien term loan provided by Alberta Investment Management Corporation due December 31, 2024 in the principal amount of $2.7 million, plus all accrued and unpaid interest.

11. OTHER LIABILITY

In connection with the Term Loan, 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 was capped at $1.9 million. As at March 31, 2024, the current liability represents the remaining obligation from 2022 of $0.9 million and from 2023 of $1.9 million with no further changes in fair value required.

Previously, the other liability was designated as a financial liability which is measured at fair value estimated by discounting potential contingent payments with the change in the fair value of this liability being recorded as a non-cash finance expense in the statements of loss and comprehensive loss. As at March 31, 2024, the remaining obligation is fixed, therefore an estimate of fair value was not required.

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

	March 31, 2024	December 31, 2023
Balance, beginning of period	**$ 2,788**	$ 3,002
Cash payments	**—**	(554)
Change in fair value	**—**	340
Balance, end of period	**$ 2,788**	$ 2,788

12. SENIOR NOTES

			March 31, 2024		December 31, 2023	
	Maturity date	**Interest rate**	**Principal**	**Carrying Amount**	Principal	Carrying amount
Senior notes	January 23, 2025	8.75%	**$ 33,229**	**$ 33,131**	$ 33,229	$ 33,099

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. In both 2023 and 2024 the interest payments were made in cash. The Senior Notes are direct senior secured, third lien obligations of the Company and have a cross-default provision with the Company's Credit Facility. The Company may redeem the Senior Notes without any repayment penalty. In addition, the Senior Notes indenture contains restrictions on certain payments including dividends, retirement of subordinated debt, and stock repurchases.

At March 31, 2024, the Senior Notes are recorded at the present value of future cash flows, net of $0.1 million in issue and principal discount costs which are amortized over the remaining term using a weighted average effective interest rate of 14.0%.

As at March 31, 2024 Senior Notes with a carrying amount of $7.0 million have been classified as a current liability as the maturity date is less than one year. The remaining carrying amount of $26.1 million relates to notes held by entities controlled or directed by the Company's Chief Executive Officer who has elected to remain a continuing noteholder. The credit facility and the second lien security provided in connection with the resolution of the Sequoia Litigation contains certain restrictions on any potential refinancing and cash repayment of the remaining Senior Notes until the settlement agreement has been settled in full and therefore have been classified as a long-term liability.

At March 31, 2024, the Senior Notes were not subject to any financial covenants and the Company was in compliance with all customary non-financial covenants.

On March 22, 2024, the Company provided a notice for the early redemption of all of the $33.2 million aggregate principal amount of 8.75% senior secured third lien notes maturing January 23, 2025 (the "2025 Senior Notes") on April 25, 2024 (the "Redemption Date"). The redemption amount was CDN $1,000 for each $1,000 principal amount of 2025 Senior Notes including interest paid in kind and all accrued and unpaid interest (the "Redemption Price"). An additional $22.29 per $1,000 principal amount of 2025 Senior Notes, representing all accrued and unpaid interest, was paid to 2025 Senior Note holders on the Redemption date.

On the Redemption Date, $7.2 million has been paid related to the early redemption of the Senior Notes and $26.2 million in principal remain outstanding. Entities controlled or directed by the President and Chief Executive Officer, holding $26.2 million of 2025 Senior Notes, have elected to agree to the amended terms and to be a continuing holder of 2025 Senior Notes as amended. These entities will be treated identically to, and have the same rights and benefits as, the other holders of 2025 Senior Notes on a per security basis.

Noteholders that elected to, in lieu of receiving the Redemption Price on the Redemption Date, continue to hold their 2025 Senior Notes by agreeing to certain amendments to be made to such notes. These amendments provide the Company with the right to convert all or a portion of the 2025 Senior Notes into common shares of the Company at its discretion at any time prior to the maturity date as well as to provide for the second lien security which is required in connection with the resolution of the Sequoia litigation. The Credit Facility and the second lien security provided in connection with the resolution of the Sequoia Litigation contains certain restrictions on any potential refinancing and cash repayment of the 2025 Senior Notes.

13. SHARE CAPITAL

	March 31, 2024		December 31, 2023	
	Shares *(thousands)*	**Amount *($thousands)***	Shares *(thousands)*	Amount *($thousands)*
Balance, beginning of period	**67,467**	**$ 98,983**	65,944	$ 98,615
Issued pursuant to share-based payment plans	**—**	**—**	1,324	498
Shares held in trust purchased (note 13b)	**—**	**—**	(1,070)	(627)
Shares held in trust issued (note 13b)	**(10)**	**7**	1,269	497
Balance, end of period	**67,457**	**$ 98,990**	67,467	$ 98,983

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 14). 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, 2024, 1.1 million shares were held in trust (December 31, 2023 – 1.1 million).

c) Per share information

	Three months ended March 31,	
(*thousands, except per share amounts*)	**2024**	2023
Net loss – basic and diluted	**$ (24,564)**	$ (235)
Weighted average shares		
Issued common shares	**67,457**	65,970
Effect of the change in shares held in trust	**—**	8
Weighted average common shares outstanding – basic[1]	**67,457**	65,978
Weighted average common shares outstanding – diluted[1][2]	**67,457**	65,978
Net loss per share – basic	**$ (0.36)**	$ 0.00
Net loss per share – diluted	**$ (0.36)**	$ 0.00

(1) Shares outstanding are presented net of 1.1 million shares held in trust (December 31, 2023 - 1.1 million).
(2) For the period ended March 31, 2024, 16.3 million (December 31, 2023 - 9.0 million) of potentially issuable common shares through the share-based compensation plan were excluded as they were not dilutive.

14. SHARE-BASED PAYMENTS

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

	Three months ended March 31,	
	2024	2023
Compensation awards	**$ 369**	$ 241
Share options	**99**	90
Performance share rights	**100**	348
Share-based payments	**$ 568**	$ 679

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

	Compensation awards					
(thousands)	**Deferred options**	**Deferred shares**	**Share options**	**Performance share rights**	**Restricted rights**	**Total**
December 31, 2022	5,886	2,868	3,601	2,547	—	14,902
Granted	1,465	2,282	1,490	1,116	2,273	8,626
Exercised for common shares(2)	(587)	—	(522)	—	(2,273)	(3,382)
Exercised for shares held in trust	(454)	(1,300)	—	—	—	(1,754)
Exercised for restricted rights	(97)	(76)	—	(2,100)	—	(2,273)
Performance adjustment(3)	—	—	—	386	—	386
Forfeited	(15)	—	—	—	—	(15)
Expired		(88)	(60)	—	—	(148)
December 31, 2023	6,198	3,686	4,509	1,949	—	16,342
Granted(1)	—	24	—	—	—	24
Exercised for common shares(2)	—	(8)	—	—	—	(8)
Forfeited	(23)	(83)	—	—	—	(106)
March 31, 2024	**6,175**	**3,619**	**4,509**	**1,949**	**—**	**16,252**

(1) During the three month period ended March 31, 2024, a nominal amount of deferred shares were granted to Officers, Directors, and employees of the Company.
(2) During the three month period ended March 31, 2024, no compensation awards were exercised for cash (December 31, 2023 - 1.9 million).
(3) Performance share rights are subject to a performance multiplier of 0.5 to 2.0.

15. 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 as at December 31, 2023.

Market/Pricing Point	**April 1, 2024 to October 31, 2024 Daily sales volume *(MMBtu/d)***
Malin	5,000
Dawn	2,500
Emerson	2,500
Total sales volume obligation	**10,000**

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

	Three months ended March 31,	
	2024	2023
Oil and natural gas revenue		
Natural Gas	**$ 6,129**	$ 8,691
Oil	**—**	5,833
NGL	**2,761**	3,287
Total oil and natural gas revenue	**$ 8,890**	$ 17,811

Included in accounts receivable at March 31, 2024 is $2.4 million of accrued oil and natural gas revenue related to March 2024 production (December 31, 2023 – $2.6 million related to December 2023 production).

16. FINANCE EXPENSE

The components of finance expense are as follows:

	Three months ended March 31, 2024	2023
Cash finance expense		
Interest (income) on revolving bank debt	**$ (65)**	$ 359
Interest on term loan	**48**	54
Interest on senior notes	**716**	772
Interest on lease liabilities (note 7)	**69**	23
Total cash finance expense	**768**	1,208
Non-cash finance expense		
Amortization of debt issue costs	**109**	358
Accretion on decommissioning obligations (note 8a)	**110**	222
Change in fair value of other liability (note 11)	**—**	24
Finance expense recognized in net loss	**$ 987**	$ 1,812

17. FINANCIAL RISK MANAGEMENT

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

	March 31, 2024	December 31, 2023
Natural gas contracts	**$ 6,423**	$ 8,809
Foreign exchange contracts	**34**	312
Risk management contracts	**$ 6,457**	$ 9,121
Risk management contracts – current asset	**$ 5,781**	$ 6,519
Risk management contracts – non-current asset	**676**	2,602
Risk management contracts	**$ 6,457**	$ 9,121

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

	Three months ended March 31, 2024	2023
Unrealized gain (loss) on foreign exchange contracts	**$ (278)**	$ 59
Unrealized loss on natural gas contracts	**(2,386)**	(3,006)
Unrealized loss on oil contracts	**—**	(454)
Unrealized loss on fair value of derivatives	**(2,664)**	(3,401)
Realized gain on foreign exchange contracts	**114**	31
Realized gain on natural gas contracts	**1,111**	4,289
Realized gain on oil contracts	**—**	303
Realized gain on financial derivatives	**1,225**	4,623
Change in fair value of derivatives	**$ (1,439)**	$ 1,222

Natural gas contracts

At March 31, 2024, 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	15,000 GJ/d	Apr 1 - Oct 31, 2024	AECO 5A (CAD$/GJ)	Swap - sold	$2.84
Natural gas	10,000 GJ/d	Nov 1 - Dec 31, 2024	AECO 5A (CAD$/GJ)	Swap - sold	$4.26
Natural gas	10,000 GJ/d	Jan 1 - Mar 1, 2025	AECO 5A (CAD$/GJ)	Swap - sold	$4.56
Natural gas	15,000 GJ/d	Apr 1 - Oct 31, 2025	AECO 5A (CAD$/GJ)	Swap - sold	$3.19
Natural gas	15,000 GJ/d	Nov 1 - Dec 31, 2025	AECO 5A (CAD$/GJ)	Swap - sold	$3.61
Natural gas	5,000 GJ/d	Jan 1 - Mar 31, 2026	AECO 5A (CAD$/GJ)	Swap - sold	$4.00

Subsequent to March 31, 2024, the Company has 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	2,500 GJ/d	May 1 - Jun 30, 2024	AECO 5A (CAD$/GJ)	Swap - bought	$1.15

Natural gas contracts - sensitivity analysis

At March 31, 2024, if future natural gas prices changed by $0.25 per GJ with all other variables held constant, net loss and comprehensive loss for the period would change by $2.9 million due to changes in the fair value of risk management contracts. Fair value sensitivity was based on published forward AECO prices.

Foreign exchange contracts

At March 31, 2024, the Company had entered the following USD/CAD foreign exchange swaps which settle in CAD$:

Contract	Notional amount	Term	Price (CAD$/US$)
Average rate forward (US$/CAD$)	$264,000 US$/month	Apr 1 – Oct 31, 2024	1.3710

Foreign exchange contracts - sensitivity analysis

As at March 31, 2024, if future CAD$/US$ exchange rates changed by CAD$0.05 with all other variables held constant, net loss and comprehensive loss for the period would change by $0.2 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. During the period ended March 31, 2024 the fair value was reclassified from level 3 to level 2 within the fair value hierarchy as the previously unobservable inputs related to future pricing no longer exists as the obligation is now fixed. Management assesses change in the fair value of financial assets and liabilities as facts and circumstances arise that would require a change in accordance with IFRS 13.

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

As at March 31, 2024	Gross	Netting[(1)]	Carrying Amount	Fair value Level 1	Level 2	Level 3
Financial assets						
Fair value through profit and loss						
Marketable securities	$ 2,778	$ —	$ 2,778	$ —	$ 2,778	$ —
Risk management contracts	6,623	(166)	6,457	—	6,457	—
Financial liabilities						
Financial liabilities at amortized cost						
Senior notes	(33,131)	—	(33,131)	—	(33,131)	—
Fair value through profit and loss						
Other liability	(2,788)	—	(2,788)	—	(2,788)	—
Risk management contracts	(166)	166	—	—	—	—

(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.

18. DEFERRED INCOME TAXES

The following table summarizes the continuity of the net deferred tax assets of the Company:

	December 31, 2023	Recognized in earnings	**March 31, 2024**
Assets (liabilities):			
Other liabilities	$ 1,640	$ 176	**$ 1,816**
Decommissioning obligations	3,361	(267)	**3,094**
Settlement obligation	—	6,431	**6,431**
Share and debt issue costs	191	(28)	**163**
Non-capital losses	8,635	1,021	**9,656**
Total deferred tax assets	$ 13,827	$ 7,333	**$ 21,160**

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, 2024, Perpetual billed and/or incurred on behalf of Rubellite net transactions, which are considered to be normal course of oil and gas operations, totaling $2.4 million (March 31, 2023 - $1.6 million). Included within this amount are $1.3 million (Q1 2023 - $0.8 million) of costs billed under the MSA. The Company recorded a receivable of $1.6 million owing from Rubellite as at March 31, 2024 (December 31, 2023 - receivable of $1.9 million).

Investments made in a private energy technology company, where the Company's CEO is a director, were valued at $0.4 million (note 3) at March 31, 2024 (December 31, 2023 - $0.4 million). There were no amounts outstanding or receivable at March 31, 2024 (December 31, 2023 - nil).