



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

THREE AND SIX MONTHS ENDED JUNE 30, 2024

PERPETUAL ENERGY INC.
Condensed Interim Consolidated Statements of Financial Position

As at	June 30, 2024	December 31, 2023
<i>(Cdn\$ thousands, unaudited)</i>		
Assets		
Current assets		
Cash	\$ —	\$ 18,272
Accounts receivable	9,939	16,489
Marketable securities (note 3)	2,041	1,663
Prepaid expenses and deposits	1,616	1,886
Risk management contracts (note 17)	6,933	6,519
	20,529	44,829
Property, plant and equipment (note 4)	122,150	127,852
Exploration and evaluation (note 5)	6,997	6,997
Risk management contracts (note 17)	1,532	2,602
Right-of-use assets (note 6)	4,446	3,850
Deferred tax asset (note 18)	20,001	13,827
Total assets	\$ 175,655	\$ 199,957
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 10,588	\$ 21,188
Term loan (note 10)	—	2,593
Other liability (note 11)	—	2,788
Revolving bank debt (note 9)	1,478	—
Lease liabilities (note 7)	420	508
Stock-based compensation payable (note 14)	2,730	—
Decommissioning obligations (note 8a)	885	1,527
Other provision (note 8b)	3,750	—
	19,851	28,604
Senior notes (note 12)	26,117	33,099
Lease liabilities (note 7)	4,576	3,836
Stock-based compensation payable (note 14)	479	—
Decommissioning obligations (note 8a)	12,488	13,087
Other provision (note 8b)	14,317	—
Total liabilities	77,828	78,626
Equity		
Share capital (note 13)	99,514	98,983
Contributed surplus (note 14)	44,019	46,826
Deficit	(45,706)	(24,478)
Total equity	97,827	121,331
Total liabilities and equity	\$ 175,655	\$ 199,957

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 June 30,		Six months ended June 30,	
	2024	2023	2024	2023
<i>(Cdn\$ thousands, except per share amounts, unaudited)</i>				
Revenue				
Oil and natural gas (note 15)	\$ 4,855	\$ 15,167	\$ 13,745	\$ 32,978
Royalties	(565)	(1,772)	(1,913)	(5,348)
	4,290	13,395	11,832	27,630
Unrealized gain (loss) on risk management (note 17)	2,008	436	(656)	(2,965)
Realized gain on risk management (note 17)	2,314	335	3,539	4,958
Processing income	21	288	60	423
	8,633	14,454	14,775	30,046
Expenses				
Production and operating	930	4,658	2,699	8,910
Transportation	648	1,197	1,322	2,289
Exploration and evaluation (note 5)	11	10	19	21
General and administrative	1,713	3,224	4,949	6,778
Share-based payments (note 14)	594	1,604	1,162	2,283
Loss on disposition (note 4b)	125	—	125	—
Depletion and depreciation (note 4, 6)	3,349	5,669	7,302	11,035
Income (loss) from operating activities	1,263	(1,908)	(2,803)	(1,270)
Finance expense (note 16)	(1,031)	(1,808)	(2,018)	(3,620)
Provision expense (note 8b)	—	—	(27,959)	—
Other income (note 8b)	5,000	—	5,000	—
Change in fair value of marketable securities (note 3)	(737)	(1,399)	378	(490)
Income (loss) before income tax	\$ 4,495	\$ (5,115)	\$ (27,402)	\$ (5,380)
Deferred income tax recovery (expense) (note 18)	(1,159)	912	6,174	942
Net income (loss) and comprehensive income (loss)	\$ 3,336	\$ (4,203)	\$ (21,228)	\$ (4,438)
Net income (loss) per share (note 13c)				
Basic	\$ 0.05	\$ (0.06)	\$ (0.31)	\$ (0.07)
Diluted	\$ 0.05	\$ (0.06)	\$ (0.31)	\$ (0.07)

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, 2023	67,467 \$	98,983 \$	46,826 \$	(24,478) \$	121,331
Net loss	—	—	—	(21,228)	(21,228)
Common shares issued (note 13, 14)	30	14	—	—	14
Change in shares held in trust (note 13, 14)	209	517	(531)	—	(14)
Reclassification to share based payment liabilities (note 14)	—	—	(3,438)	— \$	(3,438)
Share-based payments (note 14)	—	—	1,162	—	1,162
Balance at June 30, 2024	67,706 \$	99,514 \$	44,019 \$	(45,706) \$	97,827

	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	—	—	—	(4,438)	(4,438)
Common shares issued (note 13, 14)	1,200	598	(2,094)	—	(1,496)
Change in shares held in trust (note 13, 14)	359	(118)	(10)	—	(128)
Share-based payments (note 14)	—	—	2,283	—	2,283
Balance at June 30, 2023	67,503 \$	99,095 \$	46,980 \$	(34,532) \$	111,543

See accompanying notes to the condensed interim consolidated financial statements.

PERPETUAL ENERGY INC.
Condensed Interim Consolidated Statements of Cash Flows

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
<i>(Cdn\$ thousands, unaudited)</i>				
Cash flows from operating activities				
Net income (loss)	\$ 3,336	\$ (4,203)	\$ (21,228)	\$ (4,438)
Adjustments to add (deduct) non-cash items:				
Other provision (note 8b)	—	—	27,959	—
Depletion and depreciation (note 4, 6)	3,349	5,669	7,302	11,035
Share-based payments (note 14)	594	1,604	1,162	2,283
Deferred income tax recovery (expense) (note 18)	1,159	(912)	(6,174)	(942)
Unrealized loss (gain) on risk management contracts (note 17)	(2,008)	(436)	656	2,965
Change in fair value of marketable securities (note 3)	737	1,399	(378)	490
Finance expense (note 16)	255	566	474	1,170
Payments of other provision (note 8b)	(10,000)	—	(10,000)	—
Decommissioning obligations settled (note 8a)	(123)	(311)	(1,318)	(562)
Change in non-cash working capital	12,055	4,919	5,631	3,730
Net cash flows from operating activities	9,354	8,295	4,086	15,731
Cash flows used in financing activities				
Change in revolving bank debt, net of issue costs (note 9)	1,478	2,081	1,478	(1,982)
Payments of lease liabilities (note 7)	(115)	(192)	(240)	(388)
Other liabilities (note 11)	(2,788)	(554)	(2,788)	(554)
Payments of share-based awards (note 14)	(229)	—	(229)	—
Repayment of term loan (note 10)	—	—	(2,671)	—
Change in shares held in trust (note 13, 14)	—	(1,624)	—	(1,624)
Change in senior notes, net of issues costs (note 12)	(7,048)	(1,104)	(7,048)	(1,104)
Net cash flows used in financing activities	(8,702)	(1,393)	(11,498)	(5,652)
Cash flows used in investing activities				
Capital expenditures (note 4)	(3,840)	(1,800)	(4,281)	(10,911)
Net proceeds from dispositions (note 4)	2,832	—	2,832	—
Change in non-cash working capital	(2,659)	(5,102)	(9,411)	832
Net cash flows used in investing activities	(3,667)	(6,902)	(10,860)	(10,079)
Change in cash	(3,015)	—	(18,272)	—
Cash, beginning of period	3,015	—	18,272	—
Cash, end of period	\$ —	\$ —	\$ —	\$ —

See accompanying notes to the condensed interim consolidated financial statements.

PERPETUAL ENERGY INC.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)
For the three and six months ended June 30, 2024
(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, except as noted in the condensed interim consolidated financial statements.

During the six months ended June 30, 2024, the deferred options, deferred shares, share options, and performance share rights have been modified from equity settled to cash settled. This modification was accounted for following the guidance of IFRS 2 *share based payments*. See note 14.

These financial statements were approved and authorized for issue by the Board of Directors on August 1, 2024.

3. MARKETABLE SECURITIES

	June 30, 2024	December 31, 2023
Balance, beginning of period	\$ 1,663	\$ 1,814
Change in fair value of marketable securities	378	(151)
Balance, end of period	\$ 2,041	\$ 1,663

As at June 30, 2024, the Company held 58,500 shares of Rubellite Energy Inc. ("Rubellite") in trust, valued at \$0.1 million (December 31, 2023 - \$0.1 million) using the Rubellite common share price of \$2.32 per share at June 30, 2024 (December 31, 2023 - \$2.01 per share).

Investments made in a private technology company were valued at \$0.4 million at June 30, 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 \$1.5 million as at June 30, 2024 (December 31, 2023 - \$1.2 million) which can be exercised by Perpetual at anytime prior to the expiration date. The estimated fair value of Rubellite Share Purchase Warrants were calculated using the Black Scholes pricing model.

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:

	June 30, 2024	December 31, 2023
Dividend Yield (%)	—	—
Expected volatility (%)	40%	40%
Risk-free interest rate (%)	3.39%	3.02%
Contractual life (years)	2.2	2.7
Share price	\$2.32	\$2.01
Exercise price	\$3.00	\$3.00
Fair value	\$0.39	\$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		3,369		912	4,281
Change in decommissioning obligations related to PP&E (note 8a)		(145)		—	(145)
Disposition ⁽¹⁾		—		(2,832)	(2,832)
June 30, 2024	\$	468,125	\$	11,012	\$ 479,137
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		(6,622)		(384)	(7,006)
June 30, 2024	\$	(348,880)	\$	(8,107)	\$ (356,987)
Carrying amount					
December 31, 2023	\$	122,643	\$	5,209	\$ 127,852
June 30, 2024	\$	119,245	\$	2,905	\$ 122,150

(1) Perpetual has a Management and Operating Services Agreement ("MSA") in place with Rubellite Energy Inc. ("Rubellite") whereby Rubellite makes payments for certain technical, capital and administrative services provided to Rubellite on a cost sharing basis. Corporate assets include \$2.8 million (December 31, 2023 - nil) of costs reimbursed by Rubellite under the MSA for shared office leasehold improvements. See note 19.

Future development costs for the period ended June 30, 2024 of \$93.6 million (December 31, 2023 - \$97.6 million) were included in the depletion calculation. Depletion was \$6.6 million (June 30, 2023 - \$10.8 million) on development and production assets for the six months ended June 30, 2024.

a) Impairment

There were no indicators of impairment for the Company's cash generating unit ("CGU") as at June 30, 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 comprised substantially all of the production attributed to the Company's Eastern Alberta CGU (the "Mannville Disposition") for total consideration of \$32.7 million. The disposal resulted in a loss on disposition of \$3.4 million and a reduction in decommissioning obligations of \$11.8 million.

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

	June 30, 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 June 30, 2024, there were no triggers identified therefore, an impairment test was not performed.

In 2023, the Company expensed land with a value of \$0.2 million where the mineral rights expired.

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
June 30, 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	(217)	(61)	(18)	(296)
June 30, 2024	\$ (1,510)	\$ (759)	\$ (283)	\$ (2,552)
Carrying amount				
December 31, 2023	\$ 3,440	\$ 321	\$ 89	\$ 3,850
June 30, 2024	\$ 4,115	\$ 260	\$ 71	\$ 4,446

7. LEASE LIABILITIES

	June 30, 2024	December 31, 2023
Balance, beginning of period	\$ 4,344	\$ 1,575
Additions (note 6)	892	3,460
Interest on lease liabilities (note 16)	151	148
Payments	(391)	(839)
Total lease liabilities	\$ 4,996	\$ 4,344
Current	\$ 420	\$ 508
Non-current	4,576	3,836
Total lease liabilities	\$ 4,996	\$ 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 June 30, 2024 were between 4.3% and 6.6% (2023 – 4.3% and 6.6%).

8. PROVISIONS

a) Decommissioning Obligations

	June 30, 2024	December 31, 2023
Obligations incurred, including acquisitions	\$ 93	\$ 274
Change in rates	(238)	(3,245)
Change in estimates	—	2,719
Change in decommissioning obligations related to PP&E (note 4)	(145)	(252)
Obligations settled	(1,318)	(1,566)
Obligations disposed (note 4b)	—	(11,813)
Accretion (note 16)	222	793
Change in decommissioning obligations	(1,241)	(12,838)
Balance, beginning of period	14,614	27,452
Balance, end of period	\$ 13,373	\$ 14,614
Decommissioning obligations – current ⁽¹⁾	\$ 885	\$ 1,527
Decommissioning obligations – non-current	12,488	13,087
Total decommissioning obligations	\$ 13,373	\$ 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 income (loss) and comprehensive income (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:

	June 30, 2024	December 31, 2023
Undiscounted obligations	\$ 16,743	\$ 17,943
Average risk-free rate	3.4%	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").

On March 22, 2024, Perpetual entered into an agreement (the "Settlement Agreement") with the Trustee to resolve the Sequoia Litigation without any party admitting liability, wrongdoing or violation of laws, regulations, public policy or fiduciary duties. The Settlement Agreement was approved by the Alberta Court of King's Bench on May 16, 2024.

Pursuant to the Settlement Agreement, the Company will make an aggregate payment of \$30.0 million (the "Settlement Principal") spread out over multiple years. The \$10.0 million initial payment held in escrow since the execution of the Settlement Agreement, plus all accrued interest, was released on May 16, 2024 to the Trustee and applied against the Settlement amount owing, with a remaining obligation outstanding to fund end-of-life obligations related to the assets of Sequoia. Installments of \$3.75 million are to be paid annually prior to March 27 of each calendar year 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.

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.

	June 30, 2024
Other provisions – current	\$ 3,750
Other provisions – non-current	14,317
Total other provisions ⁽¹⁾	\$ 18,067

(1) Includes accretion expense of \$0.1 million in the three and six months ended June 30, 2024 (note 16).

The following assumptions were used to estimate the other provision:

	June 30, 2024
Undiscounted obligations	\$ 19,941
Average risk-free rate	3.5%
Expected timing of settling obligations	5.75 years

In the second quarter of 2024, Perpetual recovered \$5.0 million of fees incurred and is recognized as other income in the statement of income (loss) and comprehensive income (loss).

9. REVOLVING BANK DEBT

During the period ended June 30, 2024, the semi-annual review of the Company's Credit Facility was completed and the borrowing limit was confirmed at \$30.0 million (December 31, 2023 - \$30.0 million) with an initial term to May 31, 2025. The initial term may be extended for a further twelve months to May 31, 2026 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 November 30, 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 two years or more after the date of such extension, or refinanced with the maturity date of the refinanced debt that is two years or more after the incurrence of such refinanced debt, 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 June 30, 2024, \$1.5 million 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 Canadian Overnight Repo Rate Average ("CORRA") rates, plus applicable margins and standby fees. The applicable CORRA margins range between 3.0% and 5.5%. The effective interest rate on the Credit Facility at June 30, 2024 was 6.95% per annum. For the period ended June 30, 2024, if interest rates changed by 1% with all other variables held constant, the impact on annual cash finance expense and net income (loss) and comprehensive income (loss) would be nominal.

As at June 30, 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

	Maturity date	Interest rate	June 30, 2024			December 31, 2023	
			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 the second lien term loan provided by Alberta Investment Management Corporation 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 exceeded certain thresholds in each of the annual periods ended December 31, 2023. The payment for 2021 was capped at \$1.3 million; the payment for 2022 was capped at \$1.3 million; and the payment for 2023 was capped at \$1.9 million. During the second quarter of 2024, the other liability was paid in full.

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

	June 30, 2024	December 31, 2023
Balance, beginning of period	\$ 2,788	\$ 3,002
Cash payments	(2,788)	(554)
Change in fair value ⁽¹⁾	—	340
Balance, end of period	\$ —	\$ 2,788

(1) 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.

12. SENIOR NOTES

	Maturity date	Interest rate	June 30, 2024		December 31, 2023	
			Principal	Carrying Amount	Principal	Carrying amount
Senior notes	January 23, 2025	8.75%	\$ 26,181	\$ 26,117	\$ 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.

On March 22, 2024, the Company provided a notice for the early redemption of all of the \$33.2 million aggregate principal amount of the 8.75% senior secured third lien notes maturing January 23, 2025 (the "2025 Senior Notes"). On April 25, 2024, (the "Redemption Date"), \$7.2 million was paid relating to the early redemption of the Senior Notes and \$26.2 million in principal remained outstanding. 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.

Entities controlled or directed by the President and Chief Executive Officer, holding all of the remaining \$26.2 million of 2025 Senior Notes, elected to agree to the amended terms and to be a continuing holder of 2025 Senior Notes. No other holders of 2025 Senior Notes elected to be continuing holders of the 2025 Senior Notes. The 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 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 until all payments required under the Settlement Agreement have been made in full and therefore the 2025 Senior Notes have been classified as a long-term liability as at June 30, 2024.

At June 30, 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 7.9%.

At June 30, 2024, the Senior Notes were not subject to any financial covenants and the Company was in compliance with all customary non-financial covenants.

13. SHARE CAPITAL

	June 30, 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	30	14	1,324	498
Shares held in trust purchased (note 13b)	—	—	(1,070)	(627)
Shares held in trust issued (note 13b)	209	517	1,269	497
Balance, end of period	67,706	\$ 99,514	67,467	\$ 98,983

a) Authorized

Authorized capital consists of an unlimited number of voting 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 June 30, 2024, 0.9 million shares were held in trust (December 31, 2023 – 1.1 million).

c) Per share information

<i>(thousands, except per share amounts)</i>	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Net income (loss) – basic and diluted	\$ 3,336	\$ (4,203)	\$ (21,228)	\$ (4,438)
Weighted average shares				
Issued common shares	67,640	66,852	67,544	66,422
Effect of the change in shares held in trust	(83)	(274)	(37)	(142)
Weighted average common shares outstanding – basic ⁽¹⁾	67,557	66,578	67,507	66,280
Weighted average common shares outstanding – diluted ⁽¹⁾⁽²⁾	73,651	66,578	67,507	66,280
Net income (loss) per share – basic	\$ 0.05	\$ (0.06)	\$ (0.31)	\$ (0.07)
Net income (loss) per share – diluted	\$ 0.05	\$ (0.06)	\$ (0.31)	\$ (0.07)

(1) Shares outstanding are presented net of 0.9 million shares held in trust (Q2 2023 - 1.0 million).

(2) For the three and six months ended June 30, 2024, 10.7 million and 16.8 million, respectively (three and six months ended June 30, 2023 - 13.7 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 June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Compensation awards	\$ 290	\$ 263	\$ 568	\$ 505
Share options	97	86	197	176
Performance share rights	207	1,255	397	1,602
Share-based payments	\$ 594	\$ 1,604	\$ 1,162	\$ 2,283

During the three and six months ended June 30, 2024 the deferred options, deferred shares, share options and performance share rights have been modified from equity settled to cash settled. As a result of the modification, the fair value of the award previously expensed was reclassified from contributed surplus to stock-based compensation payable. Subsequent to the modification, the grant date fair value is used to record the cost of the awards and any subsequent remeasurement of the liability is recognized in the statement of income (loss) and comprehensive income (loss).

The following table summarizes the changes in the stock-based compensation liability for the period:

	June 30, 2024	December 31, 2023
Balance, beginning of period	\$ —	\$ —
Reclassified from contributed surplus	3,438	—
Cash settlement	(229)	—
Balance, end of period	\$ 3,209	\$ —
Stock-based compensation liability - current	\$ 2,730	\$ —
Stock-based compensation liability - long term	479	—
Stock-based compensation liability	\$ 3,209	\$ —

The stock-based compensation liability as at June 30, 2024 of \$3.2 million (December 31, 2023 - nil) is based on a fair value of \$0.44 per award which is the Company's closing share price on June 30, 2024.

The Company's intent with respect to its restricted share rights has not changed, and instruments issued under this plan continue to be accounted for using the equity method of accounting under IFRS 2.

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

(thousands)	Compensation awards					Total
	Deferred options	Deferred shares	Share options	Performance share rights	Restricted rights	
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	(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⁾	—	72	—	1,619	54	1,745
Exercised for common shares	—	(8)	—	—	(30)	(38)
Exercised for shares held in trust	(176)	(50)	—	—	—	(226)
Exercised for restricted rights	—	—	—	(54)	—	(54)
Exercised for cash ⁽²⁾	—	—	—	(400)	—	(400)
Performance adjustment ⁽³⁾	—	—	—	(454)	—	(454)
Forfeited	(23)	(83)	—	—	—	(106)
June 30, 2024	5,999	3,617	4,509	2,660	24	16,809

(1) During the six month period ended June 30, 2024, 0.1 million deferred shares, 1.6 million performance share rights and 0.1 million restricted rights were granted to Officers, Directors and employees of the Company.

(2) During the three and six month period ended June 30, 2024, 0.4 million performance share rights were exercised for \$0.2 million in cash (three and six month period ended June 30, 2023 - \$1.5 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 June 30, 2024.

Market/Pricing Point	July 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 June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Oil and natural gas revenue				
Natural Gas	\$ 2,497	\$ 6,029	\$ 8,626	\$ 14,720
Oil	—	6,373	—	12,206
NGL	2,358	2,765	5,119	6,052
Total oil and natural gas revenue	\$ 4,855	\$ 15,167	\$ 13,745	\$ 32,978

Included in accounts receivable at June 30, 2024 is \$1.5 million of accrued oil and natural gas revenue related to June 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 June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Cash finance expense				
Interest on revolving bank debt	\$ 120	\$ 339	\$ 55	\$ 699
Interest on term loan	—	54	49	108
Interest on senior notes	573	809	1,289	1,580
Interest on lease liabilities (note 7)	83	40	151	63
Total cash finance expense	776	1,242	1,544	2,450
Non-cash finance expense				
Gain on senior note maturity extension (note 12)	—	(104)	—	(104)
Amortization of debt issue costs	35	375	144	733
Accretion on decommissioning obligations (note 8a)	112	204	222	426
Accretion on other provision (note 8b)	108	—	108	—
Change in fair value of other liability (note 11)	—	91	—	115
Total non-cash finance expense	255	566	474	1,170
Total finance expense	\$ 1,031	\$ 1,808	\$ 2,018	\$ 3,620

17. FINANCIAL RISK MANAGEMENT

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

	June 30, 2024	December 31, 2023
Natural gas contracts	\$ 8,460	\$ 8,809
Foreign exchange contracts	5	312
Risk management contracts	\$ 8,465	\$ 9,121
Risk management contracts – current asset	\$ 6,933	\$ 6,519
Risk management contracts – non-current asset	1,532	2,602
Risk management contracts	\$ 8,465	\$ 9,121

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

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Unrealized gain (loss) on foreign exchange contracts	\$ (29)	\$ 158	\$ (307)	\$ 217
Unrealized gain (loss) on natural gas contracts	2,037	165	(349)	(2,373)
Unrealized gain (loss) on oil contracts	—	113	—	(809)
Unrealized gain (loss) on fair value of derivatives	2,008	436	(656)	(2,965)
Realized gain (loss) on foreign exchange contracts	(23)	51	91	82
Realized gain (loss) on natural gas contracts	2,337	(21)	3,448	4,268
Realized gain on oil contracts	—	305	—	608
Realized gain on financial derivatives	2,314	335	3,539	4,958
Change in fair value of derivatives	\$ 4,322	\$ 771	\$ 2,883	\$ 1,993

Natural gas contracts

At June 30, 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	Jul 1 - Oct 31, 2024	AECO 5A (CAD\$/GJ)	Swap - sold	\$2.84
Natural gas	12,500 GJ/d	Nov 1 - Dec 31, 2024	AECO 5A (CAD\$/GJ)	Swap - sold	\$3.96
Natural gas	12,500 GJ/d	Jan 1 - Mar 31, 2025	AECO 5A (CAD\$/GJ)	Swap - sold	\$4.20
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

Natural gas contracts - sensitivity analysis

At June 30, 2024, if future natural gas prices changed by \$0.25 per GJ with all other variables held constant, net income (loss) and comprehensive income (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 June 30, 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	Jul 1 – Oct 31, 2024	1.3710

Foreign exchange contracts - sensitivity analysis

As at June 30, 2024, if future CAD\$/US\$ exchange rates changed by CAD\$0.05 with all other variables held constant, net income (loss) and comprehensive income (loss) for the period would change by \$0.1 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 financial assets and liabilities, excluding working capital, is attributable to the following fair value hierarchy levels:

As at June 30, 2024	Gross	Netting ⁽¹⁾	Carrying Amount	Fair value		
				Level 1	Level 2	Level 3
Financial assets						
Fair value through profit and loss						
Marketable securities	\$ 2,041	\$ —	\$ 2,041	\$ —	\$ 2,041	\$ —
Risk management contracts	8,890	(425)	8,465	—	8,465	—
Financial liabilities						
Financial liabilities at amortized cost						
Senior notes	(26,117)	—	(26,117)	—	(26,117)	—
Fair value through profit and loss						
Risk management contracts	(425)	425	—	—	—	—

(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	June 30, 2024
Assets (liabilities):			
Other liabilities	\$ 1,640	\$ (491)	\$ 1,149
Decommissioning obligations	3,361	(285)	3,076
Other provision	—	4,155	4,155
Share and debt issue costs	191	(57)	134
Non-capital losses	8,635	2,852	11,487
Total deferred tax assets	\$ 13,827	\$ 6,174	\$ 20,001

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 MSA. Under the MSA Perpetual receives payment from for certain technical and administrative services provided to Rubellite split on a relative production basis. Effective June 1, 2024, the MSA was amended to split shared costs on a 80% Rubellite and 20% Perpetual basis. During the three and six months ended June 30, 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 \$5.9 million and \$8.3 million (2023 - \$1.6 million and \$3.1 million respectively). Included within this amount are \$4.3 million and \$5.7 million (2023 - \$0.9 million and \$1.6 million) of costs billed under the MSA. The Company recorded a receivable of \$4.6 million owing from Rubellite as at June 30, 2024 (December 31, 2023 - receivable of \$1.9 million), which included the reimbursement of \$2.8 million leasehold improvement capital.

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 June 30, 2024 (December 31, 2023 - \$0.4 million). There were no amounts outstanding or receivable at June 30, 2024 (December 31, 2023 - nil).