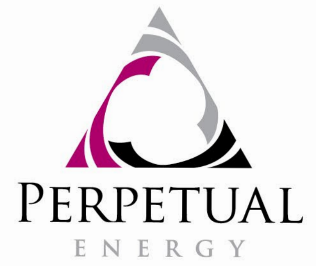
2023 ANNUAL RESULTS



TO SHAREHOLDERS

In 2023, Perpetual Energy Inc. ("Perpetual" or "the Company") delivered solid operational and financial results in the headwinds of declining commodity prices. Progress was made on multiple fronts to progress the Company's strategic priorities, particularly with respect to the balance sheet.

The Company invested alongside our partner in the continued development of the Wilrich liquids-rich natural gas resource play at Edson, sustaining average production year-over-year and adding reserves to replace production. On November 22, 2023, the Company closed the disposition of its heavy oil and shallow gas producing assets in the Mannville area in Eastern Alberta ("the Mannville Disposition") for net proceeds after closing adjustments of $33.7 million. The Mannville Disposition put the Company in a position to resolve the Sequoia Litigation which has been a burden on the business plan for close to 5 1/2 years.

Subsequent to year end, on March 21, 2024, Perpetual entered into an agreement to resolve the Sequoia Litigation(1) without any party admitting liability, wrongdoing or violation of law, regulations, public policy or fiduciary duties. Pursuant to the agreement, the Company will make an aggregate payment of $30.0 million 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 owing is paid. The certainty brought by the execution of the Settlement Agreement(1), and subsequent Court approval, which is expected in late April or early May, terminates what has been, and would otherwise be, a lengthy litigation process and allows Perpetual to advance its business plan with significantly improved access to capital, affording the financial flexibility to pursue value enhancing opportunities.

The Board of Directors and Management are deeply appreciative of the patience of our shareholders and the commitment of our Perpetual Team and are anxious to move forward to unlock the inherent value of our asset base and bring new venture opportunities to life. With a healthy balance sheet and the Sequoia Litigation(1) resolved, Perpetual's business plan is again focused on growing production, reserves, funds flow and value for shareholders and all stakeholders.

SUE RIDDELL ROSE
President and Chief Executive Officer

April 2, 2024

2023 ANNUAL FINANCIAL AND OPERATING HIGHLIGHTS

- Perpetual's exploration and development spending in 2023 was $21.5 million (2022 - $31.8 million), of which $15.4 million was attributable to the drilling, completion and tie-in of six (3.0 net) wells at East Edson as well as $6.0 million of lease construction and pipeline costs relating to the 2023 and 2024 drilling programs. At Mannville in Eastern Alberta, nominal amounts were spent in 2023. Approximately $0.1 million was spent on asset retirement obligations ("ARO") to abandon wells that had reached their end of life and execute surface lease reclamation activities, bringing full year 2023 ARO spending to $1.6 million.

- On November 22, 2023, the Company closed the previously announced disposition of certain assets at Mannville in Eastern Alberta ("the Mannville Disposition") for $35.8 million, before customary purchase price adjustments of $2.1 million resulting in total net consideration of $33.7 million.

- Full year 2023 average production of 6,375 boe/d[(2)], down 2% from 2022 (6,486 boe/d) as a result of the Mannville Disposition, which was in the high end of its 2023 production guidance of 6,200 to 6,400 boe/d, as updated for the Mannville Disposition.

- Adjusted funds flow[(3)] in 2023 was $34.4 million or $0.51/ share in 2023 (2022 - $48.5 million and $0.75/share). Adjusted funds flow on a unit-of-production basis was $14.79/boe, a 28% decrease from the $20.48/boe in 2022, driven by the 41% drop in commodity prices with lower benchmark prices for natural gas, natural gas liquids and heavy oil, offset by higher realized gains on risk management contracts and lower royalties.

- Cash costs[(3)] were $36.4 million ($15.64/boe) for full year 2023, up from $33.8 million in 2022 ($14.26/boe).

- Net income in 2023 was $5.6 million ($0.08/share) as compared to $44.4 million ($0.69/share) in 2022.

- As at December 31, 2023, net debt[(3)] was $21.6 million, a decrease of $34.1 million from $55.7 million at December 31, 2022.

- Perpetual had available liquidity[(3)] at December 31, 2023 of $47.0 million, comprised of the $30.0 million borrowing limit of Perpetual's first lien credit facility ("Credit Facility Borrowing Limit") and cash on hand of $18.3 million, less letters of credit of $1.3 million.

- As previously announced on March 22, 2024, after several years of litigation, Perpetual has entered into an agreement with the Trustee to resolve the Sequoia Litigation without any party involved admitting liability, wrongdoing or violation of law, regulations, public policy or fiduciary duties. Pursuant to an 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. 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.

- As of March 22, 2024, Perpetual has repaid and cancelled its $2.7 million second lien term loan and provided notice for the early redemption of its $33.2 million 8.75% senior secured third lien notes maturing January 23, 2025. Noteholders may elect to be continuing holders of 2025 Senior Notes subject to amendments, which, among other things, provide Perpetual with the right to convert all or a portion of the 2025 Senior Notes into common shares of the Company at its discretion. Entities controlled or directed by the President and Chief Executive Officer, holding $26.2 million of 2025 Senior Notes, have provided written confirmation to Perpetual of their election to agree to the amended terms and to be a continuing holder of 2025 Senior Notes.

(1) See "Subsequent Events" on pages 8 and 9 of this Annual Results report.
(2) See "Financial and Operating Highlights" for breakdown by product type.
(3) Non-GAAP financial measure, non-GAAP ratio or supplementary financial measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. See "Non-GAAP and Other Financial Measures" in this Annual Results report.

FINANCIAL AND OPERATING HIGHLIGHTS

Financial and Operating Highlights	Three months ended December 31,			Twelve months ended December 31,		
(CAD$ thousands, except volume and per share amounts)	**2023**	2022	Change	**2023**	2022	Change
Financial						
Oil and natural gas revenue	**12,770**	28,414	(55)%	**63,225**	109,011	(42)%
Net income (loss) and comprehensive income (loss)	**6,322**	24,531	(74)%	**5,616**	44,397	(87)%
Per share – basic[2]	**0.08**	0.14	(43)%	**0.08**	0.69	(88)%
Per share – diluted[2]	**0.09**	0.12	(25)%	**0.08**	0.59	(86)%
Cash flow from operating activities	**8,526**	11,238	(24)%	**26,717**	37,830	(29)%
Adjusted funds flow[1]	**12,729**	14,207	(10)%	**34,419**	48,471	(29)%
Per share[1][3]	**0.19**	0.22	(12)%	**0.51**	0.75	(32)%
Total assets	**199,957**	218,273	(8)%	**199,957**	218,273	(8)%
Revolving bank debt	**—**	14,909	(100)%	**—**	14,909	(100)%
Term loan, principal amount	**2,671**	2,671	— %	**2,671**	2,671	— %
Other liability	**2,788**	3,342	(17)%	**2,788**	3,342	(17)%
Senior Notes, principal amount	**33,229**	35,647	(7)%	**33,229**	35,647	(7)%
Adjusted working capital (surplus) deficiency[1]	**(17,122)**	(894)	1815 %	**(17,122)**	(894)	1815 %
Net debt[1]	**21,566**	55,675	(61)%	**21,566**	55,675	(61)%
Capital expenditures						
Capital Expenditures, including land and other[1]	**9,384**	115	8060 %	**27,605**	31,909	(13)%
Net proceeds on dispositions	**(33,727)**	—	100 %	**(33,727)**	—	100 %
Net capital expenditures, after dispositions[1]	**(24,343)**	115	(21268)%	**(6,122)**	31,909	(119)%
Common shares outstanding (thousands)[4]						
End of period	**67,467**	65,944	2 %	**67,467**	65,944	2 %
Weighted average – basic	**67,172**	65,883	2 %	**66,738**	64,448	4 %
Weighted average – diluted	**73,472**	75,090	(2)%	**74,129**	74,798	(1)%
Operating						
Daily average production						
Conventional natural gas (*MMcf/d*)	**28.4**	33.0	(14)%	**30.2**	31.0	(3)%
Heavy crude oil (*bbl/d*)	**497**	1,126	(56)%	**853**	898	(5)%
NGL (*bbl/d*)	**519**	508	2 %	**495**	416	19 %
Total (boe/d)[5]	**5,749**	7,138	(19)%	**6,375**	6,486	(2)%
Average realized prices[6]						
Realized natural gas price (*$/Mcf*)[1]	**2.30**	5.78	(60)%	**2.49**	5.90	(58)%
Realized oil price (*$/bbl*)[1]	**79.70**	71.14	12 %	**75.40**	90.15	(16)%
Realized NGL price (*$/bbl*)[1]	**65.25**	78.36	(17)%	**68.53**	88.05	(22)%
Wells drilled – gross (net)						
Conventional natural gas	**2/1.0**	-/-		**6/3.0**	7/3.5	
Heavy crude oil	**-/-**	-/-		**-/-**	5/5.0	
Total	**2/1.0**	-/-		**6/3.0**	12/8.5	

(1) Non-GAAP financial measure, non-GAAP ratio or supplementary financial measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. See "Non-GAAP and Other Financial Measures" contained within this Annual Results report.
(2) Based on weighted average basic common shares outstanding for the period.
(3) Adjusted funds flows divided by the Company's shares outstanding.
(4) Shares outstanding are net of shares held in trust (2023 – 1.1 million; 2022 – 1.3 million).
(5) See "Advisories – Volume Conversions" on page 25 of this Annual Results report.
(6) Average realized prices exclude the impact of the Company's risk management contracts.

ADVISORIES

This letter to shareholders, 2023 annual highlights and Annual Results report refer to certain non-GAAP measures and metrics commonly used in the oil and natural gas industry and provides forward-looking information and statements. Further detailed information regarding these measures is provided in this 2023 Annual Results report in "Management's Discussion and Analysis – NON-GAAP AND OTHER FINANCIAL MEASURES" on pages 20 to 23, "Management's Discussion and Analysis – FORWARD-LOOKING INFORMATION AND STATEMENTS" on pages 24 and 25.

In addition to the disclosure set out in the Company's Management's Discussion and Analysis for the period ended December 31, 2023, we provide certain supplementary disclosure throughout this Annual Results report in respect of certain specified financial measures (as such term is defined in National Instrument 51-112 – *Non-GAAP and Other Financial Measures*) and in respect of certain oil and gas metrics.

YEAR-END 2023 RESERVES

The change in reserves year over year were relatively flat after excluding the Mannville Disposition of 5.4 MMboe. The additional nominal decrease of 0.2 MMboe was a result of positive reserve adds that substantially offset production. Total Company proved plus probable reserves year-over-year decreased by 5.6 MMboe, and Perpetual's proved plus probable reserves at year-end 2023 were 26.0 MMboe, comprised of 9% crude oil and NGL (2022 – 31.6 MMboe; 20% crude oil and NGL).

Reserve highlights include:

- Total proved reserves were 15.9 MMboe at year-end 2023, representing 61% of the Company's proved plus probable reserves (2022 – 21.2 MMboe; 67%).
- Proved plus probable producing reserves were 12.2 MMboe at year-end 2023, representing 47% of total proved plus probable reserves (2022 – 15.7 MMboe; 50%).
- The Mannville Disposition contributed a decrease in total proved plus probable reserves of 5.4 MMboe.
- Based on the three consultant average price (McDaniel, GLJ, Sproule) forecasts (the "Consultant Average Price Forecast") used by McDaniel, the net present value ("NPV") of Perpetual's total proved plus probable reserves (discounted at 10%) before income tax, was $178.6 million (2022 – $302.0 million). The decrease is related primarily to the Mannville Disposition and also to impacts to the value of the East Edson property related to inflation, carbon tax and the decrease in the independent reserve evaluators' forecast in the early years for natural gas and NGL prices at year-end 2023 as compared to the prior year.
- All abandonment, decommissioning and reclamation obligations are included in the reserve report, consistent with year-end 2022. These include all future obligations for developed wells and undeveloped locations assigned reserves, and the additional costs expected to be incurred to abandon and reclaim non-reserve wells, facilities and pipelines are included.
- Based on the Consultant Average Price Forecast, Perpetual's reserve-based net asset value ("NAV")(1) (discounted at 10%) at year-end 2023 is estimated at $174.7 million ($2.59 per share) as compared to $250.1 million ($3.80 per share) at year-end 2022.

(1) Non-GAAP financial measure that does not have a standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. See "Non-GAAP and Other Financial Measures" in this Annual Results report.

Reserves Disclosure

Working interest reserves included herein refer to working interest reserves before royalty deductions. Reserves information is based on an independent reserves evaluation report prepared by McDaniel & Associates Consultants Ltd. ("McDaniel") with an effective date of December 31, 2023 (the "McDaniel Report"), and has been prepared in accordance with National Instrument 51-101 ("NI 51-101") using the Consultant Average Price Forecast. Complete NI 51-101 reserves disclosure including after-tax reserve values, reserves by major property and abandonment costs will be included in Perpetual's Annual Information Form ("AIF"), which, when filed, will be available on the Company's website at www.perpetualenergyinc.com and SEDAR+ at www.sedarplus.ca. Perpetual's reserves at December 31, 2023 are summarized below:

Working Interest Reserves at December 31, 2023(1)

	Light and Medium Crude Oil *(Mbbl)*	Heavy Oil *(Mbbl)*	Conventional Natural Gas *(MMcf)*	Natural Gas Liquids *(Mbbl)*	Oil Equivalent *(Mboe)*
Proved Producing	6	0	52,682	919	9,705
Proved Non-Producing	0	0	168	3	31
Proved Undeveloped	0	0	33,367	581	6,142
Total Proved	**6**	0	**86,216**	**1,503**	**15,878**
Probable Producing	2	0	13,507	236	2,488
Probable Non-Producing	0	0	2,307	40	425
Probable Undeveloped	0	0	39,053	680	7,188
Total Probable	**2**	**0**	**54,868**	**955**	**10,101**
Total Proved plus Probable	**7**	**0**	**141,084**	**2,458**	**25,980**

(1) May not add due to rounding.

Reserves Reconciliation

Working Interest Reserves[1]

Barrels of Oil Equivalent (*Mboe*)	Proved	Probable	Proved and Probable
December 31, 2022	21,238	10,386	31,625
Extensions & Improved Recoveries	1,417	(517)	900
Discoveries	—	—	—
Technical Revisions	(615)	(126)	(741)
Acquisitions	—	1,979	1,979
Dispositions	(3,800)	(1,634)	(5,434)
Production	(2,319)	—	(2,319)
Economic Factors	(43)	13	(30)
December 31, 2023	**15,878**	**10,101**	**25,980**

(1) May not add due to rounding.

Extensions and improved recoveries reserve increase is due to the booking of 2 (1.0 net) Wilrich undeveloped locations in the northern portion of the East Edson property.

The East Edson property recorded a negative technical revision in the conventional natural gas and natural gas liquids categories due to a change in the planned drilling orientation by the operator of two previously booked locations that reduces the Perpetual net share in the gross reserves assigned. The 2023 East Edson Wilrich drilling program delivered as expected on 2 (1.0 net) of the 6 (3.0 net) previously booked Wilrich locations. The remaining 4 (2.0 net) 2023 East Edson Wilrich wells have underperformed expectations and contributed to a negative technical revision for the property.

Lands acquired in East Edson area during 2023 added 4 (2.0 net) additional future drilling locations that were recognized as probable undeveloped reserves.

The disposition change is due the sale of Mannville assets in 2023.

Economic factors changes in reserves was not material.

The table below summarizes the future development capital ("FDC") estimated by McDaniel by play type to bring proved plus probable non-producing and undeveloped reserves to production.

Future Development Capital[1]

(*$ millions*)	2024	2025	2026	2027	2028	Remainder	Total
Total	13.4	22.0	19.4	18.2	21.0	3.6	**97.6**

(1) May not add due to rounding.

The Corporation expects to fund future development costs ("FDC") from internally-generated adjusted funds flow, debt or equity financing through the capital markets, or through joint venture arrangements with industry partners. The Corporation does not expect such costs to make development of any properties uneconomic. The McDaniel Report on Reserves Data estimates that FDC of $97.6 million will be required over the life of the Corporation's proved plus probable reserves. Proved plus probable reserve forecast FDC have decreased by $6.9 million (7%) from $104.6 million at December 31, 2022. On a proved basis, forecast FDC have decreased by $12.9 million (18%) from $71.3 million at December 31, 2022 to $58.5 million at December 31, 2023.

FDC for the East Edson property has decreased by $0.8 million in the proved category and is attributable to an increase in costs per well that has been offset by a decrease in the number of net locations. In the proved and probable category, FDC increased by $11.8 million and is attributable to an increase in costs per well that has been marginally offset by a slight decrease in the number of net locations. At year end 2023, proved plus probable locations of 30 (13.7 net) horizontal conventional natural gas wells targeting the Wilrich at East Edson is unchanged from 30 (14.1 net) at year end 2022.

As the Corporation continues to invest capital to bring on additional production, development of the undeveloped reserves will systematically be undertaken over the next several years.

RESERVE LIFE INDEX

Perpetual's proved plus probable reserves to production ratio, also referred to as reserve life index ("RLI"), was 14.8 years at year-end 2023, while the proved RLI was 9.7 years, based upon the 2023 production estimates in the McDaniel Report. The following table summarizes Perpetual's historical calculated RLI.

Reserve Life Index(1)

Year-end	**2023**	**2022**	**2021**	**2020**	**2019**
Total Proved	9.7	8.8	9.1	10.9	13.4
Total Proved plus Probable	14.8	12.5	12.2	14.5	21.5

(1) Calculated as year-end reserves divided by year one production estimate from the McDaniel Report.

NET PRESENT VALUE OF RESERVES SUMMARY

Perpetual's heavy crude oil, conventional natural gas, and NGL reserves were evaluated by McDaniel using the Consultant Average Price Forecast effective January 1, 2024 and include the forecasted impact of the Company's market diversification contract, but prior to provision for financial oil and natural gas price hedges, foreign exchange contracts, income taxes, interest, debt service charges and general and administrative expenses. The following table summarizes the NPV of future revenue from reserves at December 31, 2023, assuming various discount rates:

NPV of Reserves, before income tax(1)(2)(3)

	Before Income Taxes Discounted at (%)(1)					**Unit Value Before Income Tax Discounted At 10%/Year(2)**
Reserves Categories	**0%**	**5%**	**10%**	**15 %**	**20 %**	**($/Boe)**
Proved Producing(3)	114	88	70	58	49	8.98
Proved Non Producing	—	—	—	—	—	7.61
Proved Undeveloped	87	54	36	24	17	6.43
Total Proved(3)	**201**	**142**	**105**	**82**	**66**	**7.92**
Probable Producing	52	30	19	14	10	8.89
Probable Non Producing	6	3	2	1	—	4.54
Probable Undeveloped	141	81	52	36	27	8.36
Total Probable(3)	**200**	**114**	**73**	**51**	**37**	**8.34**
Proved plus Probable(3)	**401**	**256**	**179**	**133**	**104**	**8.09**

(1) January 1, 2024 Consultant Average price forecast.
(2) Inclusive of the East Edson royalty obligation, carbon tax, asset retirement obligations for sites not assigned reserves, and natural gas market diversification contracts.
(3) May not add due to rounding.
(4) The unit values are based on net reserve volumes.

McDaniel's NPV10 estimate of Perpetual's total proved plus probable reserves at year-end 2023 was $178.6 million, down 41% from $302.0 million at year-end 2022. The decrease is related primarily to the Mannville Disposition and also to impacts to the value of the East Edson property relating to inflation, carbon tax and the decrease in the independent reserves evaluators' forecast in early years for natural gas and NGL prices at year-end 2023 as compared to the prior year. At a 10% discount factor, total proved reserves account for 59% (2022 – 68%) of the proved plus probable value. Proved plus probable producing reserves represent 50% (2022 – 53%) of the total proved plus probable value (discounted at 10%) as obligations for non-producing wells, facilities and pipelines, carbon tax, and forecast corporate marketing adjustments reduce the value of the developed producing reserves.

FAIR MARKET VALUE OF UNDEVELOPED LAND

Perpetual held 114,407 net undeveloped acres of land as at December 31, 2023, including 89,122 net undeveloped acres of oil sands leases. Undeveloped acres refers to land where there are not any existing wells within the rights associated with those lands and includes 113,240 net acres of undeveloped land assigned value by an independent third party at year end 2023. Perpetual's undeveloped land was assessed by an independent third party, Seaton-Jordan & Associates Ltd. ("Seaton-Jordan"), as at December 31, 2023 in a report dated March 1, 2024 (the "Seaton-Jordan Report"). Estimates of the value of Perpetual's undeveloped acreage was prepared in accordance with NI 51-101 5.9(1)(e) and is based on past Crown land sale activity, adjusted for tenure and other considerations. No undeveloped land value is assigned where proved and/or probable undeveloped reserves have been booked. The assessed value of Perpetual's undeveloped land at year-end 2023 is estimated in the Seaton-Jordan Report at $4.6 million, an increase of 4% from $4.4 million at year-end 2022.

NET ASSET VALUE

The following NAV table shows what is normally referred to as a "produce-out" NAV calculation under which the Company's reserves would be produced at forecast future prices and costs. The value is a snapshot in time and is based on various assumptions including commodity prices and foreign exchange rates that vary over time. It should not be assumed that the NAV represents the fair market value of Perpetual's shares. The calculations below do not reflect the value of the Company's prospect inventory to the extent that the prospects are not recognized within the NI 51-101 compliant reserve assessment, except as they are valued through the estimate of the fair market value of undeveloped land.

Pre-tax NAV at December 31, 2023(1)(5)

(*$ millions, except as noted*)	**Undiscounted**	**5%**	**10%**	**15%**
Total Proved plus Probable Reserves(2)	401	256	179	133
Fair market value of undeveloped lands(3)	5	5	5	5
Mark-to-Consultant Average Price Forecast	13	13	13	13
Net debt(5)	(22)	(22)	(22)	(22)
NAV	397	252	175	129
Common shares outstanding (*million*)(4)	67.5	67.5	67.5	67.5
NAV per share (*$/share*)(5)	5.89	3.74	2.59	1.91

(1) Financial information is per Perpetual's 2023 audited consolidated financial statements.
(2) Reserve values per McDaniel Report as at December 31, 2023, including adjustments for natural gas market diversification contracts and carbon tax. All abandonment and reclamation obligations, including future abandonment and reclamation costs for pipelines and facilities and non-reserve wells, are included in the McDaniel Report.
(3) Independent third-party estimate; excludes undeveloped land in West Central Alberta with reserves assigned.
(4) Shares outstanding are net of shares held in trust.
(5) Non-GAAP measure, ratio or supplementary financial measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this Annual Results report.

The above evaluation includes FDC expectations required to bring undeveloped reserves on production, as recognized by McDaniel, that meet the criteria for booking under NI 51-101. The fair market value of undeveloped land does not reflect the value of the Company's extensive prospect inventory which is anticipated to be converted into reserves and production over time through future capital investment.

2024 OUTLOOK

Perpetual expects that Court approval for the Settlement Agreement will occur in late April or early May. With the Sequoia Litigation resolved, Perpetual is positioned to turn its attention again to executing its business plan and pursue the Company's strategic priorities which include:

1. Maximize Funds Flow and Value at Edson;
2. Re-ignite Active Exploration Program for Tight Oil and Gas;
3. Advance Technology-Driven Diversifying New Ventures; and
4. Strengthen the Balance Sheet, Reduce Corporate Costs and Manage Risk.

Perpetual's Board of Directors has approved the Q1 2024 production guidance of between 4,300 and 4,600 boe/d, capital spending(1)(2) of $1.0 million, cash costs between $16 and $18 per boe and royalties of 18% to 20% as a percentage of total revenue.

(1) Non-GAAP financial measure, non-GAAP ratio or supplementary financial measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. See "Non-GAAP and Other Financial Measures" contained within this Annual Results report.
(2) Excludes abandonment and reclamation spending and acquisitions or land expenditures.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") for the year ended December 31, 2023 should be read in conjunction with Perpetual Energy Inc.'s ("Perpetual", the "Company" or the "Corporation") audited consolidated financial statements and accompanying notes for the years ended December 31, 2023 and 2022. The Corporation's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") which require publicly accountable enterprises to prepare their financial statements using IFRS Accounting Standards. The date of this MD&A is March 25, 2024.

This MD&A contains certain specified financial measures that are not recognized by GAAP and used by management to evaluate the performance of the Corporation and its business. Since certain specified financial measures may not have a standardized meaning, securities regulations require that specified financial measures are clearly defined, qualified and, where required, reconciled with their nearest GAAP measure. See "Non-GAAP and Other Financial Measures" for further information on the definition, calculation and reconciliation of these measures. This MD&A also contains forward-looking information. See "Forward-Looking Information and Statements". See also the other advisory sections in this MD&A for additional information.

NATURE OF BUSINESS: Perpetual is an oil and natural gas exploration, production and marketing company headquartered in Calgary, Alberta. Additional information on Perpetual, including the most recently filed Annual Information Form, can be accessed at SEDAR+ at www.sedarplus.ca or from the Corporation's website at www.perpetualenergyinc.com.

SUBSEQUENT EVENTS

Resolution of Sequoia Litigation

On August 3, 2018, Perpetual 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 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 has entered into an agreement (the "Settlement Agreement") with the Trustee to resolve the Sequoia Litigation without any party admitting liability, wrongdoing or violation of law, regulations, public policy or fiduciary duties. A Special Committee of Perpetual's Board of Directors has determined that bringing closure to this long-standing contested litigation is in the best interests of all of Perpetual's stakeholders.

Pursuant to an 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. 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.

The certainty brought by the execution of the Settlement Agreement, and subsequent Court approval, terminates what has been, and would otherwise continue to be, a lengthy litigation process and allows Perpetual to advance its business plans with significantly improved access to capital, affording the financial flexibility to pursue value enhancing opportunities. The Company and the Board of Directors are pleased to put this matter behind us and move forward to unlock the inherent value potential of its asset base.

Term Loan Repayment

To simplify its capital structure, Perpetual has 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.

2025 Senior Notes Redemption

The Company has also provided 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 will be CDN $1,000 for each $1,000 principal amount of 2025 Senior Notes including interest paid in kind ("PIK") and all accrued and unpaid interest (the "Redemption Price"). In connection with this early redemption, a holder may make elect 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. $22.29 per $1,000 principal amount of 2025 Senior Notes, representing all accrued and unpaid interest, will be paid to 2025 Senior Notes holders on the Redemption Date who do not make such an election to continue as a noteholder. All interest on the principal amount of 2025 Senior Notes that are redeemed shall cease to accrue and be payable from and after the Redemption Date.

Holders of 2025 Senior Notes who make an irrevocable election to amend the terms of their 2025 Senior Notes are required to do so no later than two business days prior to the Redemption Date. These amendments provide the Company with continuation of committed capital and transactional flexibility including 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. Entities controlled or directed by the President and Chief Executive Officer, holding $26.2 million of 2025 Senior Notes, have provided written confirmation to Perpetual of their election 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.

The Company's existing first lien credit facility (the "Credit Facility") has been amended to provide for these matters which includes the first lien lenders' consent to resolve the Sequoia litigation, conditional on completion of the Senior Notes redemption and Court approval. The borrowing base under the Credit Facility remains unchanged at $30.0 million, with the next borrowing base redetermination date scheduled for on or before May 31, 2024. 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.

The 2025 Senior Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, or the securities laws of any state of the United States, and may not be offered or sold in the United States of America or any of its territories or possessions or to U.S. Persons (as defined in Regulation S under the United States Securities Act of 1933, as amended). The redemption of 2025 Senior

Notes does not constitute an offer to sell or a solicitation of an offer to buy any of these securities within the United States of America or any of its territories or possessions.

FOURTH QUARTER AND ANNUAL 2023 OPERATIONAL AND FINANCIAL HIGHLIGHTS

- On November 22, 2023, the Company closed the previously announced disposition of certain assets at Mannville in Eastern Alberta ("the Mannville Disposition") for $35.8 million before customary purchase price adjustments of $2.1 million resulting in total net cash consideration of $33.7 million.

- Perpetual's exploration and development capital expenditures[1] in the fourth quarter of 2023 were $5.3 million to drill, complete, equip and tie-in two (1.0 net) wells at East Edson. In addition, $0.9 million was spent on land purchases at East Edson and $3.2 million in corporate expenditures related to leasehold improvements. Full year 2023 exploration and development capital spending totaled $21.5 million, down from $31.8 million in 2022. Approximately $0.1 million was spent on asset retirement obligations ("ARO") to abandon wells that had reached their end of life and execute surface lease reclamation activities, bringing full year 2023 ARO spending to $1.6 million.

- Fourth quarter average production was 5,749 boe/d[2], down 19% from the fourth quarter of 2022 (Q4 2022 – 7,138 boe/d) and down 12% quarter-over-quarter (Q3 2023 – 6,570 boe/d) as a result of the Mannville Disposition. During the fourth quarter of 2023, there were production increases from the two (1.0 net) additional wells drilled, completed and brought on production during the fourth quarter at East Edson. Achieving the high end of its 2023 production guidance, as updated for the Mannville Disposition, of 6,200 to 6,400 boe/d, production for full year 2023 was essentially flat year-over-year, averaging 6,375 boe/d in 2023 as compared to 6,486 boe/d in 2022.

- Operating netbacks[1] in the fourth quarter were $7.4 million ($14.04/boe) (Q3 2023 - $9.2 million or $15.20/boe), reflecting the decrease in WCS benchmark prices and lower production volumes, partially offset by lower royalties, production and operating costs and transportation costs. After the realized gain on risk management contracts of $8.4 million, or $15.79/boe (Q3 2023 – $4.3 million or $7.10/boe), operating netbacks after risk management contracts increased 17% to $15.8 million or $29.83/boe (Q3 2023 – $13.5 million or $22.30/boe). Fourth quarter operating netbacks after realized gains on risk management contracts were 7% higher on a per boe basis than the fourth quarter of 2022 (Q4 2022 – $18.3 million or $27.97/boe). Operating netbacks for full year 2023 decreased to $33.5 million, from $68.9 million in the prior year. After realized gains on risk management contracts, operating netbacks after risk management contracts for 2023 were $51.1 million ($21.94/boe), down from $64.3 million ($27.15/boe) for 2022.

- Adjusted funds flow[1] in the fourth quarter of 2023 was $12.7 million ($0.19/share), up $1.0 million (11%) from $9.1 million ($0.14/share) in the third quarter of 2023 (Q4 2022 - $14.2 million and $0.22/share). Adjusted funds flow on a unit-of-production basis was $24.07/boe, a 57% increase from the $15.32/boe in the third quarter of 2023, driven by higher realized gains on risk management contracts as well as lower G&A and cash finance expenses (Q4 2022 - $21.63/boe). Adjusted funds flow in 2023 was $34.4 million or $0.51/share in 2023 (2022 - $48.5 million and $0.75/share).

- Cash costs[1] were $6.6 million or $12.52/boe in the fourth quarter of 2023 (Q3 2023 - $9.8 million or $16.16/boe; Q4 2022 – $9.0 million or $13.77/boe). Cash costs were $36.4 million ($15.64/boe) for full year 2023, up from $33.8 million in 2022 ($14.26/boe).

- Net income was $8.5 million in the fourth quarter of 2023 (Q4 2022 - $8.6 million net income) and $5.6 million and $0.08/share in 2023 (2022 - $44.4 million and $0.69/share).

- As at December 31, 2023, net debt[1] was $21.6 million, inclusive of $18.3 million of cash on hand, a decrease of $34.1 million from $55.7 million at December 31, 2022.

- Perpetual had available liquidity (see "Liquidity and Capital Resources - Capital Management") at December 31, 2023 of $47.0 million, comprised of the $30.0 million borrowing limit of Perpetual's first lien credit facility ("Credit Facility Borrowing Limit") and cash on hand of $18.3 million less letters of credit of $1.3 million.

(1) Non-GAAP financial measure and ratio. See "Non-GAAP and Other Financial Measures".
(2) See "Fourth Quarter Financial and Operating Results - Production" for details of product components that comprise Perpetual's boe production.

2024 OUTLOOK

Perpetual expects that Court approval for the Settlement Agreement will occur in late April or early May. With the Sequoia Litigation resolved, Perpetual is positioned to turn its attention again to executing its business plan and pursue the Company's strategic priorities which include:

1. Maximize Funds Flow and Value at Edson;
2. Re-ignite Active Exploration Program for Tight Oil and Gas;
3. Advance Technology-Driven Diversifying New Ventures; and
4. Strengthen the Balance Sheet, Reduce Corporate Costs and Manage Risk.

Perpetual's Board of Directors has approved the Q1 2024 production guidance of between 4,300 and 4,600 boe/d, capital spending[1][2] of $1.0 million, cash costs between $16 and $18 per boe and royalties of 18% to 20% as a percentage of total revenue.

Perpetual will continue to address end of life ARO, with total abandonment and reclamation expenditures of approximately $1.2 million planned for the first quarter of 2024. The Company's area-based mandatory spending requirement for 2024 of $1.3 million, as calculated by the Alberta Energy Regulator ("AER"), will largely be incurred during the first quarter, with remaining spending to occur in the third and fourth quarter of 2024.

(1) Non-GAAP measure or ratio. See "Non-GAAP and Other Financial Measures".
(2) Excludes abandonment and reclamation spending and acquisitions or land expenditures.

FOURTH QUARTER FINANCIAL AND OPERATING RESULTS

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

Cash flow from investing activities for the three and twelve months ended December 31, 2023 was $25.8 million and $12.4 million, respectively, as a result of the Mannville disposition (2022 - $17.2 million and $40.9 million cash flow used in investing activities). In addition to cash flow (from) used in investing activities, Perpetual uses capital expenditures to measure its capital investments compared to the Company's annual budgeted expenditures, which excludes acquisition and disposition activities.

The following table summarizes capital expenditures, excluding non-cash items:

	Three months ended December 31,		Twelve months ended December 31,	
($ thousands)	**2023**	2022	**2023**	2022
Exploration and development	**5,250**	8	**21,489**	31,772
Corporate assets	**3,198**	107	**5,141**	137
Capital Expenditures[1]	**8,448**	115	**26,630**	31,909
Land and other	**936**	—	**975**	—
Capital expenditures, including land and other[1]	**9,384**	115	**27,605**	31,909
Net proceeds from dispositions	**(33,727)**	—	**(33,727)**	—
Capital expenditures, after dispositions	**(24,343)**	115	**(6,122)**	31,909

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

Exploration and development spending by area

	Three months ended December 31,		Twelve months ended December 31,	
($ thousands)	**2023**	2022	**2023**	2022
West Central	**5,238**	1,283	**21,395**	18,977
Eastern Alberta	**12**	(1,275)	**94**	12,795
Total	**5,250**	8	**21,489**	31,772

Wells drilled by area

	Three months ended December 31,		Twelve months ended December 31,	
(gross/net)	**2023**	2022	**2023**	2022
West Central	**2 / 1.0**	- / -	**6 / 3.0**	7 / 3.5
Eastern Alberta	**- / -**	- / -	**- / -**	5 / 5.0
Total	**2 / 1.0**	- / -	**6 / 3.0**	12 / 8.5

Perpetual's exploration and development spending in the fourth quarter of 2023 was $5.3 million (Q4 2022 - nominal amount), of which $5.2 million was attributable to the drilling, completion and tie-in of two (1.0 net) wells at East Edson. At Mannville in Eastern Alberta, there were nominal amounts spent in the fourth quarter of 2023.

Perpetual's exploration and development spending in 2023 was $21.5 million (2022 - $31.8 million), of which $15.4 million was attributable to the drilling, completion and tie-in of six (3.0 net) wells at East Edson as well as $6.0 million of lease construction and pipeline costs relating to the 2023 and 2024 drilling programs. At Mannville in Eastern Alberta, nominal amounts were spent in 2023.

Spending on corporate assets of $5.1 million in 2023 related to office leasehold improvements and head office computer equipment.

Land expenditures of $1.0 million in 2023 related to crown land purchases at East Edson.

Dispositions

On November 22, 2023, the Company closed on the Mannville Disposition for gross proceeds of $35.8 million before customary purchase price adjustments of $2.1 million for total net cash consideration of $33.7 million. The properties included in the Mannville Disposition comprise substantially all of the production attributed to the Company's Eastern Alberta cash-generating unit ("CGU"s).

Expenditures on decommissioning obligations

During the fourth quarter of 2023, Perpetual spent $0.1 million (Q4 2022 – $1.2 million) on abandonment and reclamation projects. For the year ended December 31, 2023 , Perpetual spent $1.6 million (2022- $1.5 million) and there were four reclamation certificates received from the AER (2022 – four reclamation certificates). Subsequent to year-end, one reclamation certificate was received.

Production

	Three months ended December 31,		Twelve months ended December 31,	
	2023	2022	**2023**	2022
Production				
Conventional natural gas *(Mcf/d)*[1]	**28,396**	33,024	**30,161**	31,033
Conventional heavy crude oil *(bbl/d)*[2]	**497**	1,126	**853**	898
NGL *(bbl/d)*[3]	**519**	508	**495**	416
Total production (*boe/d*)	**5,749**	7,138	**6,375**	6,486

(1) Conventional natural gas production yielded a heat content of 1.17 GJ/Mcf for the three and twelve months ended December 31, 2023 (three and twelve months ended December 31, 2022 - 1.17 GJ/Mcf), resulting in higher realized natural gas prices on a $/Mcf basis.
(2) Primarily from Eastern Alberta and part of the Mannville Disposition.
(3) Primarily from West Central which produces liquids-rich conventional natural gas.

	Three months ended December 31,		Twelve months ended December 31,	
	2023	2022	**2023**	2022
Production by core area				
West Central	**5,026**	5,493	**5,092**	5,149
Eastern Alberta	**723**	1,645	**1,283**	1,337
Total production *(boe/d)*	**5,749**	7,138	**6,375**	6,486

Fourth quarter production averaged 5,749 boe/d, down 19% from 7,138 boe/d in the fourth quarter of 2022. The production mix was comprised of 82% conventional natural gas and 18% conventional heavy crude oil and NGL, as compared to 77% of conventional natural gas and 23% conventional heavy crude oil and NGL in the fourth quarter of 2022. During the fourth quarter of 2023, production decreases were driven by the Mannville Disposition and the timing of wells brought on production from the East Edson drilling programs, which added production from an additional two (1.0 net) wells drilled in the fourth quarter.

Fourth quarter conventional natural gas production averaged 28.4 MMcf/d, a decrease of 14% from 33.0 MMcf/d in the fourth quarter of 2022 primarily as a result of the Mannville Disposition. The 2022 West Central East Edson drilling program contributed production additions from six (3.0 net) liquids-rich gas wells through the second half of 2022, and one (0.5 net) Notikewin well from this program was placed on production in the first quarter of 2023. The East Edson drilling program resumed in first quarter of 2023 with two (1.0 net) wells drilled and placed on production early in the second quarter of 2023, two (1.0 net) wells drilled during the third quarter of 2023 and placed on production in late August, and two (1.0 net) wells drilled during the fourth quarter of 2023 and placed on production in late November.

Fourth quarter NGL production was 519 bbl/d, 2% higher than the fourth quarter of 2022. The increase in NGL production is largely tied to higher NGL yields of 19.2 bbl per MMcf achieved in the fourth quarter of 2023 (Q4 2022 – 17.0 bbl per MMcf). Perpetual's average NGL yields have increased in 2023 as a result of capital spent during the second half of 2022 on facility optimization to reduce emissions and increase NGL recoveries, and as a result of new wells drilled during 2023 having higher NGL yields.

Conventional heavy crude oil production averaged 497 bbl/d which was 56% lower than the fourth quarter of 2022. The decrease was attributable to the Mannville Disposition. Heavy oil represented 9% of total production during the fourth quarter of 2023, down from 16% in the fourth quarter of 2022.

For the twelve months ended December 31, 2023, production decreased 2% to 6,375 boe/d compared to 6,486 boe/d in 2022. Production levels slightly decreased as new wells in East Edson brought on production were offset by the Mannville Disposition and approximately 143 boe/d of lost production from shut-ins related to the East Edson forest fires. The Company achieved the high end of its updated guidance for 2023 of annual production of 6,200 to 6,400 boe/d (22% oil and NGL).

Oil and Natural Gas Revenue

($ thousands, except as noted)	Three months ended December 31, **2023**	2022	Twelve months ended December 31, **2023**	2022
Oil and natural gas revenue				
Natural gas	**6,010**	17,381	**27,374**	66,105
Oil	**3,645**	7,368	**23,464**	29,538
NGL	**3,115**	3,665	**12,387**	13,368
Oil and natural gas revenue	**12,770**	28,414	**63,225**	109,011

	Three months ended December 31, **2023**	2022	Twelve months ended December 31, **2023**	2022
Average Benchmark Prices				
AECO 5A Daily Index *($/GJ)*	**2.18**	4.94	**2.50**	5.06
AECO 5A Daily Index *($/Mcf)*(1)	**2.30**	5.21	**2.64**	5.34
West Texas Intermediate ("WTI") *(US$/bbl)*	**78.32**	82.64	**77.62**	94.22
Exchange rate *(CAD$/US$)*	**1.36**	1.36	**1.35**	1.30
West Texas Intermediate ("WTI") *(CAD$/bbl)*	**106.52**	112.39	**104.79**	122.49
Western Canadian Select ("WCS") *(CAD$/bbl)*	**76.84**	77.33	**79.46**	98.49
WCS differential to WTI *(US$/bbl)*	**(21.98)**	(25.70)	**(18.73)**	(18.23)
Perpetual Average Realized Prices(2)				
Natural gas *($/Mcf)*	**2.30**	5.78	**2.49**	5.90
Oil *($/bbl)*	**79.70**	71.14	**75.40**	90.15
NGL *($/bbl)*	**65.25**	78.36	**68.53**	88.05
Average realized price *($/boe)*	**24.15**	43.27	**27.17**	46.05

(1) Converted from $/GJ using a standard energy conversion rate of 1.06 GJ:1 Mcf.
(2) Non-GAAP ratio. See "Non-GAAP and Other Financial Measures".

Perpetual's oil and natural gas revenue for the three months ended December 31, 2023 of $12.8 million was a 55% decrease from $28.4 million in the comparative period in 2022 due to lower reference prices for all products and the Mannville Disposition which contributed to a 19% decrease in production volumes. Perpetual's oil and natural gas revenue for the twelve months ended December 31, 2023 of $63.2 million was a 42% decrease from $109.0 million in the prior year due to lower prices and a 2% decrease in production volumes.

Natural gas revenue of $6.0 million in the fourth quarter of 2023 comprised 47% (Q4 2022 – 61%) of total revenue and natural gas production was 82% (Q4 2022 – 77%) of total production. Natural gas revenue was 65% lower than the fourth quarter of 2022, reflecting the impact of lower AECO Daily Index prices and a 14% decrease in production volumes. For the twelve months ended December 31, 2023, natural gas revenue decreased by $38.7 million, or 59% compared to prior year, as a result of lower benchmark gas prices and a 3% decrease in production volumes.

Oil revenue of $3.6 million represented 29% (Q4 2022 – 26%) of total revenue while conventional heavy crude oil production was 9% (Q4 2022 – 16%) of total production. As a result of a 56% decrease in heavy crude oil production related to the Mannville Disposition, oil revenue decreased 51% from the fourth quarter of 2022. Compared to the fourth quarter of 2022, the WCS average price was relatively unchanged at $76.84/bbl (Q4 2022 - $77.33/bbl) as lower WTI prices were partially offset by the narrower WCS differential relative to the 2022 period. For the twelve months ended December 31, 2023, oil revenue decreased 21% compared to prior year, as a result of lower realized oil prices and 5% lower production volumes.

NGL revenue for the fourth quarter of 2023 of $3.1 million represented 24% (Q4 2022 – 13%) of total revenue while NGL production was 9% (Q4 2022 – 7%) of total production. NGL revenue decreased 15% from the fourth quarter of 2022, reflecting lower prices, partially offset by the 2% increase in NGL production which was driven by increased NGL yields at East Edson. For the twelve months ended December 31, 2023, NGL revenue decreased 7% compared to the prior year, as a result of lower NGL prices, partially offset by a 19% increase in production volumes on higher NGL yields.

Risk Management Contracts

The Company uses financial derivatives, physical delivery contracts and market diversification strategies to manage commodity price risk. Derivative contracts are put in place to manage fluctuations in commodity prices, protecting Perpetual's funds flows from potential volatility. The Company's market diversification strategies balance pricing exposure over multiple markets and are put in place to mitigate market and delivery point risks and dislocations. As a result, Perpetual's realized prices deviate from the index prices. The Company uses "average realized prices after risk management contracts" which is not a standardized measure, and therefore may not be comparable with the calculation of similar measures by other entities. The measure is used by management to calculate the Company's net realized commodity prices, taking into account the monthly settlements of physical and financial crude oil and natural gas forward sales, collars, basis differentials and forward foreign exchange contracts.

($ thousands, except as noted)	Three months ended December 31, 2023	2022	Twelve months ended December 31, 2023	2022
Unrealized gain (loss) on risk management contracts				
Unrealized gain on foreign exchange contracts	**311**	218	**282**	30
Unrealized gain on natural gas contracts	**6,497**	1,412	**5,968**	2,159
Unrealized gain (loss) on oil contracts	**754**	337	**(976)**	1,298
Unrealized gain on risk management contracts	**7,562**	1,967	**5,274**	3,487
Realized gain (loss) on risk management contracts				
Realized gain on foreign exchange contracts	**33**	—	**173**	—
Realized gain (loss) on natural gas contracts	**8,940**	374	**18,057**	(491)
Realized loss on oil contracts	**(621)**	(225)	**(631)**	(4,129)
Realized gain (loss) on risk management contracts	**8,352**	149	**17,599**	(4,620)
Change in fair value of risk management contracts	**15,914**	2,116	**22,873**	(1,133)

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

	Three months ended December 31, 2023	2022	Twelve months ended December 31, 2023	2022
Realized gain (loss) on risk management contracts [(1)]				
Realized gain (loss) on natural gas contracts *($/Mcf)*	**3.42**	0.12	**1.64**	(0.04)
Realized loss on oil contracts *($/bbl)*	**(12.86)**	(2.17)	**(1.47)**	(12.60)
Realized gain (loss) on risk management contracts (*$/boe*)	**15.79**	0.21	**7.56**	(1.96)
Average realized prices after risk management contracts[(1)]				
Natural gas ($/Mcf)	**5.72**	5.84	**4.13**	5.80
Oil *($/bbl)*	**66.84**	68.97	**73.93**	77.55
NGL (*$/bbl*)	**65.25**	78.36	**68.53**	88.05
Average realized price (*$/boe)*	**39.94**	43.48	**34.73**	44.09

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

The realized gain on risk management contracts totaled $8.4 million for the fourth quarter of 2023, compared to a realized gain of $0.1 million for the fourth quarter of 2022. The realized gain on risk management contracts totaled $17.6 million for the twelve months of 2023 (2022 - $4.6 million realized loss). Hedging gains or losses are attributable to reference price fluctuations relative to pricing on commodity contracts driven by changes in AECO, WTI and WCS differential prices as well as fluctuations in foreign exchange rates and the production volumes hedged at any given time.

The unrealized gain on risk management contracts totaled $7.6 million in the fourth quarter of 2023 (Q4 2022 – unrealized gain of $2.0 million) and the unrealized gain totaled $5.3 million for the twelve months ended December 31, 2023 (2022 - $3.5 million unrealized gain). Unrealized gains and losses represent the change in mark-to-market value of derivative contracts as forward commodity prices and foreign exchange rates change. Unrealized gains and losses on derivatives are excluded from the Company’s calculation of cash flow from operating activities as non-cash items. Derivative gains and losses vary depending on the nature and extent of derivative contracts in place, which in turn, vary with the Company’s assessment of commodity price risk, committed capital spending and other factors.

Royalties

($ thousands, except as noted)	Three months ended December 31, 2023	2022	Twelve months ended December 31, 2023	2022
Crown royalties				
Natural gas	**253**	1,533	**749**	5,411
Oil	**194**	91	**1,233**	1,999
NGL	**(37)**	856	**1,256**	2,104
Total Crown royalties	**410**	2,480	**3,238**	9,514
Freehold and overriding royalties				
Natural gas	**640**	1,643	**2,904**	6,888
Oil	**392**	1,000	**2,618**	3,388
NGL	**325**	154	**1,158**	1,001
Total freehold and overriding royalties	**1,357**	2,797	**6,680**	11,276
Total royalties	**1,767**	5,277	**9,918**	20,790
$/boe	**3.34**	8.04	**4.26**	8.78
Royalties as a percentage of revenue[1]				
Crown	**3.2**	8.7	**5.1**	8.7
Freehold and overriding	**10.6**	9.8	**10.6**	10.3
Total *(% of oil and natural gas revenue)*	**13.8**	18.5	**15.7**	19.0
Natural gas royalties (% of natural gas revenue)	**14.9**	18.1	**13.3**	18.6
Oil royalties *(% of oil revenue)*	**16.1**	14.8	**16.4**	18.2
NGL royalties *(% of NGL revenue)*	**9.2**	27.6	**19.5**	23.2

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

Total royalties for the fourth quarter of 2023 were $1.8 million, 67% lower than the fourth quarter of 2022 primarily due to lower reference commodity prices. On a unit-of-production basis, royalties were down 58% to $3.34/boe (Q4 2022 – $8.04/boe).

Total royalties for the twelve months ended December 31, 2023 were $9.9 million, 52% lower than 2022. On a unit-of-production basis, royalties were down 51% to $4.26/boe (2022 – $8.78/boe).

Perpetual's royalties consists of Crown royalties payable to the Alberta provincial government and other freehold and gross overriding ("GORR") royalties. The mix between Crown and freehold production as a percentage of total production can change the composition of royalties from one period to the next. Under the Alberta Modernized Royalty Framework ("MRF"), the Company pays a flat Crown royalty of 5% on wells in their early production period. As Perpetual's wells mature and begin to pay higher royalty rates, the amounts owing to the Crown may fluctuate to a greater degree.

On an absolute basis, royalties were lower due to lower reference prices for all commodities and an annual gas cost allowance ("GCA") credit of $0.7 million. The impact of the GCA credit was a reduction of royalties for the year ended December 31, 2023. In 2022, there was a GCA payment to the Crown of $1.2 million which increased royalties for the year ended December 31, 2022. Freehold and overriding royalties decreased due to the impact of lower AECO Daily Index, heavy oil and NGL prices and the annual 10% step down in the GORR payable at East Edson effective January 1 of each year, reducing the East Edson GORR from 2.8 to 2.5 MMcf/d of natural gas plus associated NGL for 2023.

Net operating costs [1]

($ thousands, except as noted)	Three months ended December 31, 2023	2022	Twelve months ended December 31, 2023	2022
Net operating costs [1]	**2,775**	3,771	**15,640**	15,431
$/boe [1]	**5.24**	5.61	**6.73**	6.52

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

Total net operating costs were $2.8 million, 26% lower than the fourth quarter of 2022 (Q4 2022 - $3.8 million). The decrease was related to lower production volumes as a result of the Mannville Disposition. For the year ended December 31, 2023, net operating costs were $15.6 million, a 1% increase from 2022 (2022 - $15.4 million). During 2023, the Company incurred higher purchased energy costs at the non-operated East Edson gas processing facility, higher carbon taxes and overall cost inflation, which were partially offset by the impact of the Mannville Disposition in November 2023. The Mannville asset contributed higher heavy crude oil production as a percentage of total volumes and the heavy oil production had higher operating costs than the Company's conventional natural gas and NGL production at East Edson.

On a unit-of-production basis, net operating costs decreased by 7% to $5.24/boe in the fourth quarter of 2023 (Q4 2022 – $5.61/boe) due to the Mannville Disposition which had significantly higher operating costs per boe than Perpetual's West Central Alberta assets. For the year ended December 31, 2023, on a unit-of-production basis, net operating costs increased by 3% to $6.73/boe in 2023 (2022 - $6.52/boe) attributable to higher costs due to the reasons noted above, partially offset by lower heavy oil production as a percentage of total production. Incremental carbon tax obligations in 2023 totaled $0.8 million or $0.34/boe for the year ended December 31, 2023.

Transportation costs

($ thousands, except as noted)	Three months ended December 31, 2023	2022	Twelve months ended December 31, 2023	2022
Transportation costs	**808**	1,223	**4,199**	3,872
$/boe	**1.53**	1.86	**1.80**	1.64

Transportation costs include clean oil trucking and NGL transportation, as well as costs to transport natural gas from the plant gate to commercial sales points. Transportation costs in the fourth quarter of 2023 were $0.8 million, a 34% decrease from the fourth quarter of 2022 (Q4 2022 - $1.2 million) on lower heavy oil trucking volumes as a result of the Mannville Disposition. For the year ended December 31, 2023, transportation costs were $4.2 million, an 8% increase from the prior year (2022 - $3.9 million). The increase in costs were a result of higher fuel prices and surcharges and the impact the Alberta forest fires had on access and rates, partially offset by lower production volumes.

On a unit-of-production basis, transportation costs decreased by 18% to $1.53/boe in the fourth quarter of 2023 on lower costs which more than offset lower production volumes (Q4 2022 – $1.86/boe) and increased by 10% for 2023 to $1.80/boe (2022 - $1.64/boe)) on higher costs and lower production volumes.

Operating netbacks

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

	Three months ended December 31,				Twelve months ended December 31,			
($/boe) ($ thousands)		**2023**		2022		**2023**		2022
Production (*boe/d*)		**5,749**		7,138		**6,375**		6,486
Oil and natural gas revenue	**24.15**	**12,770**	43.27	28,414	**27.17**	**63,225**	46.05	109,011
Royalties	**(3.34)**	**(1,767)**	(8.04)	(5,277)	**(4.26)**	**(9,918)**	(8.78)	(20,790)
Net operating costs [1]	**(5.24)**	**(2,775)**	(5.61)	(3,771)	**(6.73)**	**(15,640)**	(6.52)	(15,431)
Transportation costs	**(1.53)**	**(808)**	(1.86)	(1,223)	**(1.80)**	**(4,199)**	(1.64)	(3,872)
Operating netback[1]	**14.04**	**7,420**	27.76	18,143	**14.38**	**33,468**	29.11	68,918
Realized gain (loss) on risk management contracts	**15.79**	**8,352**	0.21	149	**7.56**	**17,599**	(1.96)	(4,620)
Total operating netback, including risk management contracts[1]	**29.83**	**15,772**	27.97	18,292	**21.94**	**51,067**	27.15	64,298

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

Perpetual's operating netback in the fourth quarter of 2023 decreased to $7.4 million, or $14.04/boe (Q4 2022 - $18.1 million or $27.76/boe) as a result of the significant decrease in revenue on lower sales volumes and prices, partially offset by lower royalties, and lower net operating and transportation costs. After the realized gain on risk management contracts of $8.4 million, or $15.79/boe (Q4 2022 – gain of $0.1 million or $0.21/boe), operating netbacks after risk management contracts were $15.8 million ($29.83/boe), down 14% from $18.3 million ($27.97/boe) in the fourth quarter of 2022. Fourth quarter operating netbacks after realized gains on risk management contracts were 7% higher on a per boe basis than the fourth quarter of 2022.

Perpetual's operating netback for the twelve months ended December 31, 2023 decreased to $33.5 million, from $68.9 million in the prior year, attributable to decreased revenue primarily driven by the significantly lower prices, higher production and operating expenses and transportation costs, partially offset by lower royalties. After the realized gain on risk management contracts of $17.6 million, or $7.56/boe (2022 – loss of $4.6 million or $1.96/boe), operating netbacks after risk management contracts were $51.1 million ($21.94/boe) a 21% decrease from $64.3 million ($27.15/boe) for 2022.

General and administrative ("G&A") expenses

($ thousands, except as noted)	Three months ended December 31, 2023	2022	Twelve months ended December 31, 2023	2022
G&A before overhead recoveries	**4,240**	4,542	**18,352**	14,688
MSA recoveries[1]	**(813)**	(561)	**(3,354)**	(1,859)
Overhead recoveries	**(1,425)**	(1,126)	**(3,184)**	(2,918)
Total G&A expense	**2,002**	2,855	**11,814**	9,911
$/boe	**3.79**	4.35	**5.08**	4.19

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

Total G&A expenses were $2.0 million in the fourth quarter of 2023, 30% lower than the fourth quarter of 2022 as a result of lower professional fees and higher MSA and overhead recoveries.

For the twelve months ended December 31, 2023, total G&A expenses of $11.8 million increased 19% over the prior year. Prior to overhead recoveries, G&A increased due to higher employee salaries and benefits, legal costs, professional fees and computer services. Overhead recoveries were higher in 2023 and will fluctuate from one period to the next based on the amount of capital spent by Perpetual or Rubellite under the MSA.

For the three and twelve months ended December 31, 2023, the costs billed under the MSA to Rubellite were $0.8 million and $3.4 million (2022 - $0.6 million and $1.9 million). MSA recoveries in 2023 increased over the comparative period as a result of higher shared G&A expenses and Rubellite's increased production relative to Perpetual.

Share-based payments

	Three months ended December 31,		Twelve months ended December 31,	
($ thousands, except as noted)	**2023**	2022	**2023**	2022
Share-based payments (non-cash)	**95**	740	**2,883**	6,184
Share-based payments (cash)	**—**	124	**—**	1,250
Total share-based payments	**95**	864	**2,883**	7,434

Share-based payments expense for the three and twelve months ended months ended December 31, 2023 decreased to $0.1 million and $2.9 million, respectively (2022 - $0.9 million and $7.4 million). The decrease is due to a reduction in the performance share right multiplier in 2023 and a higher fair value of grants issued through 2022. The reduction in cash share-based payments decreased over the prior year for both the three and twelve months ended December 31, 2023 as the related plan ended during the fourth quarter of 2022.

During the fourth quarter of 2023, 1.5 million deferred options, 2.2 million deferred shares, 1.3 million share options and 0.1 million restricted rights were granted to Officers, Directors and employees of the Company. For the twelve months ended December 31, 2023, 1.5 million deferred options, 2.3 million deferred shares, 1.5 million share options, 1.1 million performance rights and 2.3 million restricted rights were granted to Officers, Directors and employees of the Company.

Depletion and depreciation

	Three months ended December 31,		Twelve months ended December 31,	
($ thousands, except as noted)	**2023**	2022	**2023**	2022
Depletion and depreciation	**7,418**	5,633	**23,624**	17,962
$/boe	**14.03**	8.58	**10.15**	7.59

The Company calculates depletion using the net book value of the asset, future development costs associated with proved and probable reserves, salvage values on associated production equipment, as well as proved and probable reserves. As at December 31, 2023, depletion was calculated on a $174.2 million depletable balance and $97.6 million in future development costs (December 31, 2022 – $176.1 million depletable balance and $104.6 million in future development costs). The depletable base excluded an estimated $3.8 million (December 31, 2022 – $3.8 million) of salvage value.

Depletion and depreciation expense for the fourth quarter of 2023 was $7.4 million or $14.03/boe (Q4 2022 – $5.6 million or $8.58/boe). Depletion and depreciation expense for the twelve months ended December 31, 2023 was $23.6 million or $10.15/boe (2022 – $18.0 million or $7.59/boe). The increases reflect higher depletion rates per barrel of oil equivalent.

On a unit-of-production basis, depletion and depreciation expense increased from the comparable periods of 2022 due to higher oil production relative to reserves in Eastern Alberta along with a higher depletable base from additions, and impairment reversals in 2022, partially offset by the Mannville Disposition in the fourth quarter of 2023. Depletion and depreciation expense will fluctuate from one period to the next depending on the amount of capital spent, the amount of reserves added and volumes produced.

Impairment

There were no indicators of impairment for the Company's CGU as of December 31, 2023; therefore, an impairment test was not performed. E&E assets are tested for impairment both at the time of any triggering facts and circumstances as well as upon their reclassification to oil and gas properties in PP&E. There were no transfers during 2023 and as such an impairment test was not performed.

During the first quarter of 2022, the Company determined that indicators of impairment reversal existed and that the estimated recoverable amounts of the Eastern Alberta CGU exceeded the carrying amounts. Accordingly, a non-cash impairment reversal of $7.4 million was included in net income in the comparative period.

During 2022, land of $0.2 million was transferred to PP&E, which was equal to the book value in E&E. As a result of the transfer, an impairment test was performed, resulting in no impairments recorded to E&E in 2022.

Finance expense

	Three months ended December 31,		Twelve months ended December 31,	
($ thousands)	**2023**	2022	**2023**	2022
Cash finance expense				
Interest on revolving bank debt	**196**	334	**1,350**	1,031
Interest on term loan	**54**	55	**216**	216
Interest on Senior Notes	**742**	780	**3,025**	3,184
Interest on lease liabilities	**44**	26	**148**	116
Total cash finance expense	**1,036**	1,195	**4,739**	4,547
Non-cash finance expense				
Gain on senior note extinguishment	**(27)**	—	**(209)**	(101)
Amortization of debt issue costs	**66**	434	**1,003**	1,864
Accretion on decommissioning obligations	**170**	203	**793**	727
Change in fair value of other liability	**—**	60	**340**	1,678
Change in fair value of royalty obligations(1)	**—**	(363)	**—**	2,256
Total non-cash finance expense	**209**	334	**1,927**	6,424
Finance expense recognized in net income	**1,245**	1,529	**6,666**	10,971

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

Total cash finance expense was $1.0 million in the fourth quarter of 2023, 13% lower than the fourth quarter of 2022 as a result of lower outstanding bank debt due to the Mannville Disposition.

For the twelve months ended December 31, 2023, total cash finance expenses was $4.7 million, a 4% increase from the prior year as a result of increased interest rates being applied to higher outstanding bank debt during the year, partially offset by lower interest on Senior Notes due to lower principal outstanding and lower outstanding bank debt in the fourth quarter due to the Mannville Disposition.

Total non-cash finance expense for the three and twelve months ended December 31, 2023 was $0.2 million and $1.9 million, a decrease from the comparable periods of 2022 driven by the termination of the East Edson retained royalty obligation on December 31, 2022, which was $2.3 million in 2022. Also contributing to the decrease was the change in the fair value of the final future contingent payment due June 30, 2024 related to the Second Lien Loan Settlement which is recorded as other liability with the change being recognized through finance expense and lower amortization of debt issue costs.

LIQUIDITY AND CAPITAL RESOURCES

Perpetual's strategy targets the maintenance of a strong capital base to retain investor, creditor and market confidence to support the execution of its business plans. The Company manages its capital structure and adjusts its capital spending in light of changes in economic conditions such as depressed commodity prices, available liquidity, and the risk characteristics of its underlying oil and natural gas assets. The Company considers its capital structure to include share capital, senior notes, the term loan, revolving bank debt, and adjusted net working capital. To manage its capital structure and available liquidity, the Company may from time to time issue equity or debt securities, sell assets, and adjust its capital spending to manage current and projected debt levels. The Company will continue to regularly assess changes to its capital structure and repayment alternatives, with considerations for both short-term liquidity and long-term financial sustainability.

Capital management

($ thousands, except as noted)	**December 31, 2023**	December 31, 2022
Revolving bank debt	**—**	14,909
Term loan, principal amount	**2,671**	2,671
Senior notes, principal amount	**33,229**	35,647
Other liability	**2,788**	3,342
Adjusted working capital surplus(1)	**(17,122)**	(894)
Net debt(1)	**21,566**	55,675
Shares outstanding at end of period (thousands)(3)	**67,467**	65,944
Market price at end of period ($/share)	**0.43**	0.71
Market value of shares(1)	**29,011**	46,820
Enterprise value(1)	**50,577**	102,495
Net debt as a percentage of enterprise value(2)	**43%**	54%
Trailing twelve-months adjusted funds flow(1)	**34,419**	48,471
Net debt to trailing twelve-months adjusted funds flow(2)	**0.6**	1.2

(1) Non-GAAP measure. See "Non-GAAP and Other Financial Measures".
(2) Non-GAAP ratio. See"Non-GAAP and Other Financial Measures".
(3) Shares outstanding are presented net of shares held in trust.

At December 31, 2023, Perpetual had total net debt of $21.6 million, down $34.1 million from December 31, 2022 driven by the Mannville Disposition in the fourth quarter 2023 and free funds flow of $6.8 million.

Perpetual had available liquidity at December 31, 2023 of $47.0 million, comprised of a cash balance of $18.3 million and the $30.0 million Credit Facility Borrowing Limit less letters of credit of $1.3 million.

Revolving bank debt

During the period, the Company completed the semi-annual borrowing base redetermination for the first lien credit facility (the "Credit Facility") and its borrowing limit was maintained at $30.0 million (December 31, 2022 - $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 maturity date of the Company's third lien Senior Notes (the "Senior Notes") is January 23, 2025. Under the Credit Facility agreement, if by July 31, 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 refinancing debt being at least January 23, 2027, the maturity date of the Credit Facility springs to July 31, 2024 and any outstanding balance would become repayable at that time. The next semi-annual borrowing base redetermination is scheduled to be completed on or before May 31, 2024.

As at December 31, 2023, nil was drawn (December 31, 2022 – $14.9 million) and $1.3 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 December 31, 2023 was 9.1%. at December 31, 2023

As at December 31, 2023, the Credit Facility was not subject to any financial covenants and the Company was in compliance with all customary non-financial covenants.

Subsequent to December 31, 2023 the maturity date on the Company's Credit Facility of July 31, 2024, in the event the January 23, 2025 maturity date of the Senior Notes has not been extended by a period of at least two years, has been extended to November 30, 2024 and currently no amounts have been drawn on the Credit Facility.

Term loan

($ thousands,			**December 31, 2023**		December 31, 2022	
except as noted)	**Maturity date**	**Interest rate**	**Principal**	**Carrying Amount**	Principal	Carrying amount
Term loan	December 31, 2024	8.1%	**2,671**	**2,593**	2,671	2,524

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

At December 31, 2023, the Term Loan was not subject to any financial covenants and the Company was in compliance with all customary non-financial covenants.

Subsequent to December 31, 2023, in concurrence with the execution of the Settlement Agreement, the second lien term loan has been repaid and cancelled.

Senior notes

($ thousands,			**December 31, 2023**		December 31, 2022	
except as noted)	**Maturity date**	**Interest rate**	**Principal**	**Carrying Amount**	Principal	Carrying amount
Senior notes	January 23, 2025	8.75%	**33,229**	**33,099**	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 and the July 23, 2023 semi-annual interest payments 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 December 31, 2023, 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%.

During 2023, the Company purchased and cancelled a portion of the Senior Notes balance with a carrying value of $2.4 million (2022 - $0.9 million) for gross costs of $2.2 million (2022 - $0.8 million). A gain on extinguishment of $0.2 million (2022 - $0.1 million) is included in non-cash finance expense.

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 December 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 Chief Executive Officer ("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.

Subsequent to December 31, 2023, the Company has provided notice for the early redemption of all of the principal amount of the $33.2 million aggregate 8.75% senior secured third lien notes maturing on January 23, 2025 on April , 2024. Entities controlled or directed by the President and Chief Executive Officer, holding $26.2 million of 2025 Senior Notes, have provided written confirmation to Perpetual of their election to be a continuing holder of 2025 Senior Notes as amended.

Equity

At December 31, 2023, there were 67.5 million common shares outstanding, net of 1.1 million shares held in trust for the Company's employee compensation program. During the fourth quarter of 2023, 0.1 million shares were purchased by the independent trustee to be held in trust (Q4 2022 – 0.1 million). Basic and diluted weighted average shares outstanding for the three months ended December 31, 2023 were 67.2 million and 73.5 million, respectively (Q4 2022 - 65.9 million basic and 75.1 million diluted). Basic and diluted weighted average shares outstanding for the twelve months ended December 31, 2023 were 66.7 million and 74.1 million, respectively (2022 - 64.4 million basic and 74.8 million diluted).

At March 25, 2024, there were 67.5 million common shares outstanding which is net of 1.1 million shares held in trust for employee compensation programs. In addition, the following potentially issuable common shares were outstanding as at the date of this MD&A:

(millions)	**March 25, 2024**
Share options	**3.1**
Performance share rights	**1.9**
Compensation awards	**5.4**
Total[1]	**10.4**

(1) 5.4 million compensation awards, 3.1 million share options, and 1.9 million performance share rights have an exercise price below the December 31, 2023 closing price of the Company's common shares of $0.43 per share.

Commodity price risk management and sales obligations

Perpetual's commodity price risk management strategy is focused on managing downside risk and increasing certainty in adjusted funds flow by mitigating the effect of commodity price volatility. Physical forward sales contracts and financial derivatives are used to increase certainty in adjusted funds flow (see "Non-GAAP and Other Financial Measures"), manage the balance sheet, lock in economics on capital programs, and to take advantage of perceived anomalies in commodity markets. Perpetual also utilizes foreign exchange derivatives and physical or financial derivatives related to the differential between natural gas prices at the AECO and NYMEX trading hubs and oil basis differentials between WTI and WCS in order to mitigate the effects of fluctuations in foreign exchange rates and basis differentials on the Corporation's revenue. Diversification of markets is a further risk management strategy employed by the Company.

As at March 25, 2024, the Company had the following swap commodity contracts in place:

Commodity	Volumes sold	Term	Reference/ Index	Contract Traded Bought/sold	Market Price
Natural gas	15,000 GJ/d	Mar 1 - Mar 31, 2024	AECO 5A (CAD$/GJ)	Swap - sold	$3.26
Natural gas	15,000 GJ/d	Apr 1 - Oct 31, 2024	AECO 5A (CAD$/GJ)	Swap - sold	$2.84
Natural gas	15,000 GJ/d	Nov 1 - Dec 31, 2024	AECO 5A (CAD$/GJ)	Swap - sold	$3.84
Natural gas	5,000 GJ/d	Nov 1, 2024 - Mar 31, 2025	AECO 5A (CAD$/GJ)	Swap - bought	$3.00
Natural gas	25,000 GJ/d	Jan 1 - Mar 31, 2025	AECO 5A (CAD$/GJ)	Swap - sold	$3.67
Natural gas	10,000 GJ/d	Jan 1 - Mar 31, 2025	AECO 5A (CAD$/GJ)	Swap - bought	$3.11
Natural gas	15,000 GJ/d	Apr 1 - Oct 31, 2025	AECO 5A (CAD$/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

As at March 25, 2024, the Company had entered the following CAD$/USD$ foreign exchange swaps which settle in CAD$:

Contract	Notional amount	Term	Price (CAD$/US$)
Average rate forward (CAD$/US$)	$1,472,000 US$/month	Jan 1 – Mar 31, 2024	1.3750
Average rate forward (CAD$/US$)	$264,000 US$/month	Apr 1 – Oct 31, 2024	1.3710

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

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

SEQUOIA LITIGATION

On August 3, 2018, the Company received a Statement of Claim that was filed by PricewaterhouseCoopers Inc. LIT ("PwC"), in its capacity as trustee in bankruptcy (the "Trustee") of Sequoia Resources Corp. ("Sequoia"), with the Alberta Court of Queen's Bench (the "Court"), against Perpetual (the "Sequoia Litigation"). The claim relates to a seven-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. Perpetual filed its Affidavit of Records on July 31, 2023.

On December 18, 2023 the Trustee filed an affidavit with the Court of King's Bench of Alberta in support of the Trustee's amended summary judgement application which has not yet been filed or scheduled with the Court of King's Bench of Alberta. Additionally, on December 27, 2023 the Trustee also submitted a statement of concern related to the transfer of licenses related to certain Mannville assets that were disposed of during the fourth quarter of 2023.

As at December 31, 2023 managements position is that the Company is more likely than not to be 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. Subsequent to December 31, 2023 the Company has entered into an agreement (the "Settlement Agreement") with the Trustee to resolve the Sequoia Litigation.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The Company’s minimum contractual obligations and lease commitments over the next three years and thereafter, excluding estimated interest payments, are as follows:

	2024	2025	2026	2027 and thereafter	Total
Contractual obligations					
Accounts payable and accrued liabilities	21,188	—	—	—	21,188
Term loan, principal amount	2,671	—	—	—	2,671
Senior notes, principal amount	—	33,229	—	—	33,229
Other liability	2,788	—	—	—	2,788
Head Office lease	581	517	540	5,610	7,248
Pipeline transportation commitments	1,964	1,682	335	—	3,981
Total	**29,192**	**35,428**	**875**	**5,610**	**71,105**

OFF BALANCE SHEET ARRANGEMENTS

Perpetual has no other material off balance sheet arrangements not discussed within this MD&A.

RELATED PARTY TRANSACTIONS

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 year ended December 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 $6.9 million (December 31, 2022 - $5.6 million). Included within this amount are $3.4 million (2022 - $1.9 million) of costs billed under the MSA. The Company recorded an accounts receivable of $1.9 million owing from Rubellite as at December 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 December 31, 2023 (December 31, 2022 - $0.4 million). There were no amounts outstanding or receivable at December 31, 2023 (December 31, 2022 - nil).

NON-GAAP AND OTHER FINANCIAL MEASURES

Throughout this MD&A and in other materials disclosed by the Company, Perpetual employs certain measures to analyze financial performance, financial position and cash flow. These non-GAAP and other financial measures do not have any standardized meaning prescribed under IFRS Accounting Standards and therefore may not be comparable to similar measures presented by other entities. The non-GAAP and other financial measures should not be considered to be more meaningful than GAAP measures which are determined in accordance with IFRS Accounting Standards, such as net income (loss) and comprehensive income (loss), cash flow from operating activities, and cash flow from investing activities, as indicators of Perpetual’s performance.

Non-GAAP Financial Measures

Capital expenditures or capital spending: Perpetual uses capital expenditures or capital spending related to exploration and development to measure its capital investments compared to the Company’s annual capital budgeted expenditures. Perpetual’s capital budget excludes acquisition and disposition activities.

The most directly comparable GAAP measure for capital expenditures or capital spending is cash flow (from) used in investing activities. A summary of the reconciliation of cash flow (from) used in investing activities to capital expenditures or capital spending, is set forth below:

	Three months ended December 31,		Twelve months ended December 31,	
($ thousands)	**2023**	2022	**2023**	2022
Net cash flows (from) used in investing activities	**(25,756)**	17,239	**(12,369)**	40,941
Purchase of marketable securities	**—**	(2)	**—**	(39)
Proceeds from dispositions	**33,727**	—	**33,727**	—
Change in non-cash working capital	**1,413**	(17,122)	**6,247**	(8,993)
Capital expenditures, including land	**9,384**	115	**27,605**	31,909

Adjusted funds flow: Adjusted funds flow is calculated based on cash flows from operating activities, excluding changes in non-cash working capital and expenditures on decommissioning obligations since Perpetual believes the timing of collection, payment or incurrence of these items is variable. Expenditures on decommissioning obligations may vary from period to period depending on capital programs and the maturity of the Company’s operating areas. Expenditures on decommissioning obligations are managed through the capital budgeting process which considers available adjusted funds flow and regulatory requirements. For 2022, the Company added back non-cash oil and natural gas

revenue in-kind, equal to retained East Edson royalty obligation payments taken in-kind, to present the equivalent amount of cash revenue generated. Management uses adjusted funds flow and adjusted funds flow per boe as key measures to assess the ability of the Company to generate the funds necessary to finance capital expenditures, expenditures on decommissioning obligations, and meet its financial obligations.

Adjusted funds flow is not intended to represent net cash flows from operating activities calculated in accordance with IFRS.

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

	Three months ended December 31,		Twelve months ended December 31,	
($ thousands, except per share and per boe amounts)	**2023**	2022	**2023**	2022
Net cash flows from operating activities	**8,526**	11,238	**26,717**	37,830
Change in non-cash working capital	**4,087**	1,925	**6,136**	9,442
Decommissioning obligations settled (cash)	**116**	1,044	**1,566**	1,199
Adjusted funds flow	**12,729**	14,207	**34,419**	48,471
Adjusted funds flow per share	**0.19**	0.22	**0.51**	0.75
Adjusted funds flow per boe	**24.07**	21.63	**14.79**	20.48

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

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

	Three months ended December 31,		Twelve months ended December 31,	
($ thousands, except per share and per boe amounts)	**2023**	2022	**2023**	2022
Adjusted funds flow	**12,729**	14,207	**34,419**	48,471
Capital Expenditures, including land	**(9,384)**	(115)	**(27,605)**	(31,909)
Free funds flow	**3,345**	14,092	**6,814**	16,562

Operating netback: Operating netback is calculated by deducting royalties, net operating costs, and transportation costs from oil and natural gas revenue. Operating netback is also calculated on a per boe basis using total production sold in the period and presented before and after realized gains or losses from risk management contracts. Perpetual considers that netback is a key industry performance indicator and one that provides investors with information that is also commonly presented by other crude oil and natural gas producers. Perpetual considers operating netback to be an important performance measure to evaluate its operational performance as it demonstrates its profitability relative to current commodity prices. Refer to reconciliations earlier in the MD&A under the "Operating netbacks" section.

Net operating costs: Net operating costs equals operating expenses net of other income, which is made up of processing revenue. Management views net operating costs as an important measure to evaluate its operational performance. The most directly comparable IFRS measure for net operating costs is production and operating expenses.

The following table reconciles net operating costs from production and operating expenses and other income in the Company's consolidated statement of income (loss) and comprehensive income (loss).

	Three months ended December 31,		Twelve months ended December 31,	
($ thousands, except per share and per boe amounts)	**2023**	2022	**2023**	2022
Production and operating	**2,906**	3,896	**16,323**	16,063
Processing income				
Other income	**(131)**	(336)	**(683)**	(980)
SRP revenue [(1)]	**—**	211	**—**	348
Processing income [(1)]	**(131)**	(125)	**(683)**	(632)
Net operating costs	**2,775**	3,771	**15,640**	15,431
Per boe	**5.24**	5.61	**6.73**	6.52

(1) Processing income is other income less amounts related to Alberta Site Rehabilitation Program ("SRP") revenue.

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

	Three months ended December 31,		Twelve months ended December 31,	
($ thousands, except per boe amounts)	**2023**	2022	**2023**	2022
Net operating costs	**2,775**	3,771	**15,640**	15,431
Transportation	**808**	1,223	**4,199**	3,872
General and administrative	**2,002**	2,855	**11,814**	9,911
Cash finance expense	**1,036**	1,195	**4,739**	4,547
Cash costs	**6,621**	9,044	**36,392**	33,761
Cash costs per boe	**12.52**	13.77	**15.64**	14.26

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

The following table details the composition of net debt:

($ thousands)	**As of December 31, 2023**	As of December 31, 2022
Cash and cash equivalents	**18,272**	—
Accounts and accrued receivable	**16,489**	15,804
Prepaid expenses and deposits	**1,886**	1,564
Marketable securities	**1,663**	1,814
Inventory	**—**	674
Accounts payable and accrued liabilities	**(21,188)**	(18,962)
Adjusted working capital surplus[1]	**17,122**	894
Bank indebtedness	**—**	(14,909)
Term loan (principal)	**(2,671)**	(2,671)
Other liability	**(2,788)**	(3,342)
Senior notes (principal)	**(33,229)**	(35,647)
Net debt	**(21,566)**	(55,675)

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

Available Liquidity: Available Liquidity is defined as Perpetual's credit facility borrowing limit, less current borrowings and letters of credit issued under the credit facility. Management uses available liquidity to assess the ability of the Company to finance capital expenditures and expenditures on decommissioning obligations, and to meet its financial obligations.

Enterprise value: Enterprise value is equal to net debt plus the market value of issued equity and is used by management to analyze leverage. Enterprise value is calculated by multiplying the current shares outstanding by the market price at the end of the period and then adjusting it by the net debt. The Company considers enterprise value as an important measure as it normalizes the market value of the Company's shares for its capital structure.

Non-GAAP Financial Ratios

Perpetual calculates certain non-GAAP measures per boe as the measure divided by weighted average daily production. Management believes that per boe ratios are a key industry performance measure of operational efficiency and one that provides investors with information that is also commonly presented by other crude oil and natural gas producers. Perpetual also calculates certain non-GAAP measures per share as the measure divided by outstanding common shares.

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

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

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

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

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

Supplementary Financial Measures

"Average realized price" is comprised of total commodity sales from production, as determined in accordance with IFRS, divided by the Company's total sales production on a boe basis.

"Realized oil price" is comprised of oil commodity sales from production, as determined in accordance with IFRS, divided by the Company's oil sales production.

"Realized natural gas price" is comprised of natural gas commodity sales from production, as determined in accordance with IFRS, divided by the Company's natural gas sales production.

"Realized NGL price" is comprised of NGL commodity sales from production, as determined in accordance with IFRS, divided by the Company's NGL sales production.

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

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

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

"Depletion and depreciation expense per boe" is comprised of depletion and depreciation expense, as determined in accordance with IFRS, divided by the Company's total sales production.

"G&A expense per boe" is comprised of G&A expense, as determined in accordance with IFRS, divided by the Company's total sales production.

"Net operating expense per boe" is comprised of net operating expense, divided by the Company's total sales production.

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

"Transportation expense per boe" is comprised of operating expense, as determined in accordance with IFRS, divided by the Company's total sales production.

"Royalties as a percentage of revenue" is comprised of royalties, as determined in accordance with IFRS, divided by oil and natural gas revenue from sales production as determined in accordance with IFRS.

"Royalties per boe" is comprised of royalties, as determined in accordance with IFRS, divided by the Company's total sales production.

“Market value of shares” is comprised of common shares outstanding multiplied by the market price of shares.

“Adjusted funds flow per share” is comprised of adjusted funds flow divided by the Company’s shares outstanding.

FUTURE ACCOUNTING PRONOUNCEMENTS

The International Accounting Standards Board (“IASB”) and the IFRS Interpretations Committee regularly issue new and revised accounting pronouncements which have future effective dates and therefore are not reflected in Perpetual’s financial statements. Once adopted, these new and amended pronouncements may have an impact on Perpetual’s consolidated financial statements.

Sustainability Disclosures

On June 26, 2023, the International Sustainability Standards Board (“ISSB”) issued IFRS S1 “General Requirements for Disclosure of Sustainability-related Financial Information” and IFRS S2 “Climate-related Disclosures”. IFRS S1 and IFRS S2 are effective for annual reporting periods beginning on or after January 1, 2024. The sustainability standards as issued by the ISSB provide for transition relief in IFRS S1 that allow a reporting entity to report only on climate-related risks and opportunities, as set out in IFRS S2, in the first year of reporting under the sustainability standards.

The Canadian Securities Administrators (“CSA”) are responsible for determining the reporting requirements for public companies in Canada and are responsible for decisions related to the adoption of the sustainability disclosure standards, including the effective annual reporting dates. The CSA issued proposed National Instrument (“NI 51-107 – Disclosure of Climate-related Matters”) in October 2021. The CSA has indicated it will consider the ISSB sustainability standards and developments in the United States in its decisions related to developing climate-related disclosure requirements for reporting issuers in Canada. The CSA will involve the Canadian Sustainability Standards Board (“CSSB”) for their combined review of the ISSB issued sustainability standards for their suitability for adoption in Canada. Until such time as the CSA and CSSB make decisions on sustainability standard adoption here in Canada, there is no requirement for public companies in Canada to adopt the sustainability standards. The Company is actively evaluating the potential effects of the ISSB issued sustainability standards; however, at this time, the Company is not able to determine the impact on future financial statements, nor the potential costs to comply with these sustainability standards.

Amendments to IAS 1 *Presentation of Financial Statements*

In January 2020, The IASB issued amendments to IAS 1 *Presentation of Financial Statements* ("IAS 1"), to clarify its requirements for the presentation of liabilities as current or non-current in the statement of financial position. In October 2022, the IASB issued further amendments to IAS 1, which specify the classification and disclosure of a liability with covenants. These amendments to IAS 1 will be effective January 1, 2024 and Perpetual plans to adopt the amendments for annual periods beginning on or after January 1, 2024.

RISK FACTORS

The Corporation is exposed to business risks that are inherent in the oil and gas industry, as well as those governed by the individual nature of Perpetual’s operations. Risks impacting the business which influence controls and management of the Corporation include, but are not limited to, the following:

- geological and engineering risks;
- the uncertainty of discovering commercial quantities of new reserves;
- commodity prices, interest rate and foreign exchange risks;
- political and geopolitical risks;
- competition
- cybersecurity risks;
- inflation and supply chain risks;
- risks relating to pandemics (including COVID-19);
- risks relating to litigation (including the Sequoia litigation); and
- changes to government regulations including royalty regimes and tax legislation.

Perpetual manages these risks by:

- attracting and retaining a team of highly qualified and motivated professionals who have a vested interest in the success of the Corporation;
- prudent operation of oil and natural gas properties;
- employing risk management instruments and policies to manage exposure to volatility of commodity prices, interest rates and foreign exchange rates;
- maintaining a flexible financial position;
- maintaining strict environmental, safety and health practices; and
- active participation with industry organizations to monitor and influence changes in government regulations and policies.

A complete discussion of risk factors is included in the Corporation’s 2023 Annual Information Form (“AIF”) available on the Corporation’s website at www.perpetualenergyinc.com or on SEDAR+ at www.sedarplus.com.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Perpetual's CEO and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICOFR") as defined in National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS.

Disclosure controls and procedures

The DC&P have been designed to provide reasonable assurance that material information relating to Perpetual is made known to the CEO and CFO by others, and that information required to be disclosed by Perpetual in its annual filings, interim filing or other reports is filed or submitted by Perpetual under securities legislation.

Perpetual's CEO and CFO have concluded, based on their evaluation at December 31, 2023, the DC&P are designed and operating effectively to provide reasonable assurance that information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the issuer's management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure.

Management's annual report on internal controls over financial reporting

Management is responsible for establishing and maintaining adequate ICOFR, which is a process designed by, or under the supervision of, the CEO and CFO, and effected by the board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Under the supervision and with the participation of management, including the CEO and CFO, an evaluation of the effectiveness of the internal controls over financial reporting was conducted as of December 31, 2023 based on criteria described in "Internal Control – Integrated Framework" issued in 2013 by the Committee of Sponsoring Organization of the Treadway Commission. Based on this assessment, management determined that, as of December 31, 2023, the internal controls over financial reporting were designed and operating effectively.

INTERNAL CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

There were no changes in the Corporation's internal control over financial reporting during the period beginning on October 1, 2023 and ended December 31, 2023 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

CEO and CFO certifications

Perpetual's CEO and CFO have filed with the Canadian securities regulators regarding the quality of Perpetual's public disclosures relating to its fiscal 2023 filings with the Canadian securities regulators.

CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a regular basis. The emergence of new information and changed circumstances may result in actual results or changes to estimates that differ materially from current estimates.

Perpetual's financial and operational results incorporate certain estimates including:

- estimated commodity sales from production at a specific reporting date for which actual revenues have not yet been received, including associated estimated credit losses;
- estimated royalty obligations, transportation, and operating expenses at a specific reporting date for which costs have been incurred but have not yet been settled;
- estimated capital expenditures on projects that are in progress;
- estimated depletion charges and deferred tax assets that are based on estimates of reserves that Perpetual expects to recover in the future;
- estimated future recoverable value of PP&E and E&E and any associated impairment charges or reversals;
- estimated fair values of financial instruments that are subject to fluctuation depending upon the underlying forward curves for commodity prices, foreign exchange rates and interest rates, as well as volatility curves, and the risk of non-performance;
- estimated value of ARO that is dependent upon estimates of future costs and timing of expenditures;
- estimated compensation expense under Perpetual's share-based compensation plans including the PSUs awarded under the PSU Plans that are dependent on the final number of PSU awards that eventually vest based on a performance multiplier; and
- estimated fair values of assets acquired and liabilities assumed in a business combination.

A change in a critical accounting estimate can have a significant effect on net loss, including their impact on the depletion rate, provisions, impairments, and income taxes. A change in a critical accounting estimate can have a significant effect on the value of property, plant, and equipment, provisions, derivative financial instruments and accounts payable. A complete discussion of critical accounting estimates is included in the notes to the consolidated financial statements at December 31, 2023.

FORWARD-LOOKING INFORMATION AND STATEMENTS

Certain information in this MD&A including management's assessment of future plans and operations may constitute forward-looking information or statements (together "forward-looking information") under applicable securities laws. The forward-looking information includes, without limitation, statements with respect to expectations respecting Perpetual's future exploration, development and drilling activities; and Perpetual's business plan.

Forward-looking information is based on current expectations, estimates and projections that involve a number of known and unknown risks, which could cause actual results to vary and in some instances to differ materially from those anticipated by Perpetual and described in the forward-looking information contained in this news release. In particular and without limitation of the foregoing, material factors or assumptions on which the forward-looking information in this news release is based include: forecast commodity prices and other pricing assumptions; forecast production volumes based on business and market conditions; foreign exchange and interest rates; near-term pricing and continued volatility of the market including inflationary pressures; accounting estimates and judgments; future use and development of technology and associated expected future results; the ability to obtain regulatory approvals; the successful and timely implementation of capital projects; ability to generate sufficient cash flow to meet current and future obligations; the ability of Perpetual to obtain and retain qualified staff and equipment in a timely and cost-efficient manner, as applicable; the retention of key properties; forecast inflation, supply chain access and other assumptions inherent in Perpetual's current guidance and estimates; climate change; severe weather events (including wild fires); the continuance of existing tax, royalty, and regulatory regimes; the accuracy of the estimates of reserves volumes; ability to access and implement technology necessary to efficiently and effectively operate assets; and the ongoing and future impact of pandemics (including COVID-19) and the war in Ukraine and related sanctions on commodity prices and the global economy, and the Israel-Hamas war, among others.

Undue reliance should not be placed on forward-looking information, which is not a guarantee of performance and is subject to a number of risks or uncertainties, including without limitation those described herein and under "Risk Factors" in Perpetual's Annual Information Form and MD&A for the year ended December 31, 2023 and in other reports on file with Canadian securities regulatory authorities which may be accessed through the SEDAR+ website (www.sedarplus.ca) and at Perpetual's website (www.perpetualenergyinc.com). Readers are cautioned that the foregoing list of risk factors is not exhaustive. Forward-looking information is based on the estimates and opinions of Perpetual's management at the time the information is released, and Perpetual disclaims any intent or obligation to update publicly any such forward-looking information, whether as a result of new information, future events or otherwise, other than as expressly required by applicable securities law.

GLOSSARY

The following is a list of abbreviations that may be used in this MD&A:

Measurement:

bbl	barrel
bbl/d	barrels per day
boe	barrels of oil equivalent
boe/d	barrels of oil equivalent per day
Mboe	thousands of barrels of oil equivalent
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
MMcf/d	million cubic feet per day
GJ	gigajoule

Volume Conversions:

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

Financial and Business Environment:

AECO	Alberta Energy Company
E&E	Exploration and evaluation
GAAP	Generally accepted accounting principles
G&A	General and administrative
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
NGLs	Natural gas liquids
PP&E	Property, plant and equipment
WTI	West Texas Intermediate
WCS	Western Canadian Select

ANNUAL FINANCIAL AND OPERATING HIGHLIGHTS

($ thousands, except as noted)	**2023**	2022	2021
Financial			
Oil and natural gas revenue	**63,225**	109,687	60,814
Net income	**5,616**	44,397	81,121
Per share – basic	**0.08**	0.69	1.29
Per share – diluted	**0.08**	0.59	1.16
Cash flow from operating activities	**26,717**	37,830	12,815
Adjusted funds flow[1]	**34,419**	48,471	16,746
Per share – basic[2]	**0.51**	0.75	0.27
Revolving bank debt	**—**	14,909	2,487
Senior notes, principal amount	**33,229**	35,647	36,582
Term loan, principal amount	**2,671**	2,671	2,671
Other Liability	**2,788**	3,342	1,387
Net working capital deficiency (surplus)[3]	**(17,122)**	(220)	16,143
Total Net Debt	**21,566**	56,349	59,270
Capital expenditures, including land purchases[1]	**(27,605)**	31,909	19,062
Net proceeds on dispositions[1]	**33,727**	—	49,549
Common shares (thousands)			
Weighted average – basic	**66,738**	64,448	62,969
Weighted average – diluted	**74,129**	74,798	69,989
Operating			
Daily average production			
Natural gas *(MMcf/d)*	**30.2**	31.0	24.6
Oil *(bbl/d)*	**853**	898	963
NGL *(bbl/d)*	**495**	416	331
Total (boe/d)	**6,375**	6,486	5,389
Perpetual average realized prices[2]			
Natural gas *($/Mcf)*	**2.49**	5.90	3.15
Oil *($/bbl)*	**75.40**	90.15	57.36
NGL *($/bbl)*	**68.53**	88.05	63.24
Wells drilled			
Conventional natural gas - gross (net)	**6 (3.0)**	7 (3.5)	9 (4.5)
Heavy crude oil - gross (net)	**—**	5 (5.0)	5 (4.0)
Total - gross (net)	**6 (3.0)**	12 (8.5)	14 (8.5)

(1) Non-GAAP measure. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.
(2) Non-GAAP ratio. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.
(3) Includes cash on hand of $18.3 million on December 31, 2023 (December 31, 2022 - nil).

SUMMARY OF QUARTERLY RESULTS

($ thousands, except as noted)	**Q4 2023**	Q3 2023	Q2 2023	Q1 2023
Financial				
Oil and natural gas revenue	**12,770**	17,477	15,167	17,811
Net income (loss), and comprehensive income (loss)	**6,322**	3,732	(4,203)	(235)
Per share – basic	**0.08**	0.06	(0.06)	—
Per share – diluted	**0.09**	0.05	(0.06)	—
Cash flow from operating activities	**8,526**	2,460	8,295	7,436
Adjusted funds flow[1]	**12,729**	9,127	3,687	8,876
Per share – basic[2]	**0.19**	0.14	0.05	0.13
Capital expenditures, including land[1]	**9,384**	7,310	1,800	9,111
Net payments proceeds on dispositions[1]	**(33,727)**	—	—	—
Common shares (thousands)				
Weighted average – basic	**67,172**	67,204	66,551	65,978
Weighted average – diluted	**73,472**	74,341	66,551	65,978
Operating				
Daily average production				
Natural gas (MMcf/d)	**28.4**	30.8	30.6	30.8
Oil (bbl/d)	**497**	942	953	1,022
NGL (bbl/d)	**519**	493	474	495
Total (boe/d)	**5,749**	6,570	6,532	6,655
Perpetual average realized prices[2]				
Natural gas ($/Mcf)	**2.30**	2.34	2.16	3.12
Oil ($/bbl)	**79.70**	87.83	73.46	63.39
NGL ($/bbl)	**65.25**	71.00	64.11	73.81

($ thousands, except as noted)	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Financial				
Oil and natural gas revenue	28,414	22,856	33,092	24,953
Net income (loss), and comprehensive income (loss)	24,531	8,234	4,470	7,162
Per share – basic	0.14	0.13	0.07	0.11
Per share – diluted	0.12	0.11	0.06	0.10
Cash flow from operating activities	8,749	8,749	11,571	6,272
Adjusted funds flow[1]	14,207	9,642	10,505	14,117
Per share – basic[2]	0.22	0.15	0.16	0.22
Capital expenditures[1]	115	22,596	4,361	4,837
Common shares (thousands)				
Weighted average – basic	65,883	65,016	63,641	63,216
Weighted average – diluted	75,090	74,067	74,721	74,348
Operating				
Daily average production				
Natural gas (MMcf/d)	33.0	26.9	29.9	34.3
Oil (bbl/d)	1,126	1,002	775	682
NGL (bbl/d)	508	390	364	400
Total (boe/d)	7,138	5,882	6,123	6,804
Perpetual average realized prices[2]				
Natural gas ($/Mcf)	5.78	4.74	7.92	5.16
Oil ($/bbl)	71.14	87.24	117.20	95.55
NGL ($/bbl)	78.36	85.48	104.71	87.86

(1) Non-GAAP measure. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.
(2) Non-GAAP ratio. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.

MANAGEMENT'S REPORT

The consolidated financial statements of Perpetual Energy Inc. ("Perpetual" or the "Company") are the responsibility of Management and have been approved by the Board of Directors of the Company. These consolidated financial statements have been prepared by Management in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements are audited and have been prepared using accounting policies in accordance with IFRS Accounting Standards. The preparation of Management's Discussion and Analysis is based on the Company's financial results which have been prepared in accordance with IFRS Accounting Standards. It compares the Company's financial performance in 2023 to 2022 and should be read in conjunction with the consolidated financial statements and accompanying notes.

Management is responsible for establishing and maintaining adequate internal control over the Company's financial reporting. Management believes that the system of internal controls that have been designed and maintained at the Company provide reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements. The internal accounting control process includes Management's communication to employees of policies which govern ethical business conduct.

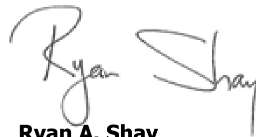
Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Board of Directors has appointed an Audit Committee consisting of unrelated, non-management directors which meets during the year with Management and independently with the external auditors and as a group to review any significant accounting, internal control and auditing matters in accordance with the terms of the charter of the Audit Committee as set out in the Annual Information Form. The Audit Committee reviews the consolidated financial statements and Management's Discussion and Analysis before the consolidated financial statements are submitted to the Board of Directors for approval. The external auditors have free access to the Audit Committee without obtaining prior Management approval.

With respect to the external auditors, the Audit Committee approves the terms of engagement and reviews the annual audit plan, the Auditors' Report and results of the audit. It also recommends to the Board of Directors the firm of external auditors to be appointed by the shareholders.

The independent external auditors, KPMG LLP, have been appointed by the Board of Directors on behalf of the shareholders to express an opinion as to whether the consolidated financial statements present fairly, in all material respects, the Company's financial position, financial performance and cash flows in accordance with IFRS Accounting Standards. The report of KPMG LLP outlines the scope of their examination and their opinion on the consolidated financial statements.

Susan L. Riddell Rose
President & Chief Executive Officer



Ryan A. Shay
Vice President, Finance & Chief Financial Officer

March 25, 2024

KPMG LLP
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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Perpetual Energy Inc.

Opinion

We have audited the consolidated financial statements of Perpetual Energy Inc. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2023 and December 31, 2022
- the consolidated statements of income and comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of material accounting policy information

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2023 and December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG LLP, an Ontario limited liability partnership and member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. KPMG Canada provides services to KPMG LLP.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Assessment of the impact of estimated proved and probable oil and gas reserves on property, plant and equipment ("PP&E") and the deferred tax asset ("DTA")

Description of the matter

We draw attention to note 2, note 3, note 5 and note 21 to the financial statements. The Entity uses estimated proved and probable oil and gas reserves to deplete its development and production assets included in PP&E, to assess for indicators of impairment on the Entity's cash generating unit ("CGU") and if any such indicators exist, to perform an impairment test to estimate the recoverable amount of the CGU, to assess exploration and evaluation ("E&E") costs for impairment when transferred to PP&E and to determine if it is probable that future taxable profits will be sufficient to utilize the underlying deductible temporary differences and unused tax losses associated with the DTA.

The Entity has $127.9 million of PP&E as of December 31, 2023.

The Entity depletes its net carrying value of development and production assets using the unit-of-production method by reference to the ratio of production in the period to the related proved and probable oil and gas reserves, taking into account estimated forecasted future development costs necessary to bring those reserves into production. Depletion expense on development and production assets was $23.0 million for the year ended December 31, 2023.

The Entity recognized a deferred tax asset of $13.8 million at December 31, 2023. The determination of probable future taxable profits involves significant estimates, including proved and probable oil and gas reserves.

The estimate of proved and probable oil and gas reserves includes significant assumptions related to:

- Forecasted oil and gas commodity prices
- Forecasted production volumes
- Forecasted operating costs
- Forecasted royalty costs
- Forecasted future development costs.

The Entity engages independent third-party reserve evaluators to estimate proved and probable oil and gas reserves.

Why the matter is a key audit matter

We identified the assessment of the impact of estimated proved and probable oil and gas reserves on PP&E and the DTA as a key audit matter. Significant auditor judgment was required to evaluate the results of our audit procedures regarding the estimate of proved and probable oil and gas reserves. Additionally, the measurement of the DTA requires the use of professionals with specialized skills and knowledge in tax.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter:

We assessed the depletion expense calculation for compliance with IFRS Accounting Standards.

With respect to the estimate of proved and probable oil and gas reserves as at December 31, 2023 for purposes of depletion and the DTA:

- We evaluated the competence, capabilities and objectivity of the independent third-party reserve evaluators engaged by the Entity
- We compared forecasted oil and gas commodity prices to those published by other independent third-party reserve evaluators
- We compared the 2023 actual production, operating costs, royalty costs and development costs of the Entity to those estimates used in the prior year's estimate of proved oil and gas reserves to assess the Entity's ability to accurately forecast
- We evaluated the appropriateness of forecasted production and forecasted operating costs, royalty costs and future development costs assumptions by comparing to 2023 historical results. We took into account changes in conditions and events affecting the Entity to assess the adjustments or lack of adjustments made by the Entity in arriving at the assumptions.

We involved income tax professionals with specialized skills and knowledge who assisted in evaluating the application of relevant tax laws and regulations and the appropriateness of the Entity's estimate of future taxable profits used in the measurement of the DTA.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditor's report thereon, included in a document likely to be entitled "2023 Annual Results".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditor's report thereon, included in a document likely to be entitled "2023 Annual Results" is expected to be made available to us after the date of this auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor’s report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditor’s report is Jasmeet Kang.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
March 25, 2024

PERPETUAL ENERGY INC.
Consolidated Statements of Financial Position

As at		**December 31, 2023**		December 31, 2022
(*Cdn$ thousands*)				
Assets				
Current assets				
Cash	**$**	**18,272**	$	—
Accounts receivable		**16,489**		15,804
Marketable securities (note 4)		**1,663**		1,814
Prepaid expenses and deposits		**1,886**		1,564
Product inventory		**—**		674
Risk management contracts (note 20)		**6,519**		3,847
		44,829		23,703
Property, plant and equipment (note 5)		**127,852**		170,644
Exploration and evaluation (note 6)		**6,997**		7,168
Risk management contracts (note 20)		**2,602**		—
Right-of-use assets (note 7)		**3,850**		864
Deferred tax asset (note 21)		**13,827**		15,894
Total assets	**$**	**199,957**	$	218,273
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**21,188**	$	18,962
Term loan (note 10)		**2,593**		—
Other liability (note 11)		**2,788**		532
Lease liabilities (note 13)		**508**		705
Decommissioning obligations (note 14)		**1,527**		1,688
		28,604		21,887
Revolving bank debt (note 9)		**—**		14,909
Term loan (note 10)		**—**		2,524
Other liability (note 11)		**—**		2,470
Senior notes (note 12)		**33,099**		34,527
Lease liabilities (note 13)		**3,836**		870
Decommissioning obligations (note 14)		**13,087**		25,764
Total liabilities		**78,626**		102,951
Equity				
Share capital (note 15)		**98,983**		98,615
Contributed surplus		**46,826**		46,801
Deficit		**(24,478)**		(30,094)
Total equity		**121,331**		115,322
Total liabilities and equity	**$**	**199,957**	$	218,273

Contingencies (note 8)
Subsequent event (note 20, 25)

See accompanying notes to the consolidated financial statements.

Linda A. Dietsche
Director

Geoffrey C. Merritt
Director

PERPETUAL ENERGY INC.
Consolidated Statements of Income and Comprehensive Income

Years Ended	December 31, 2023	December 31, 2022
(*Cdn$ thousands, except per share amounts*)		
Revenue		
Oil and natural gas (note 17)	**$ 63,225**	$ 109,011
Royalties	**(9,918)**	(20,790)
	53,307	88,221
Unrealized gain on risk management (note 20)	**5,274**	3,487
Realized gain (loss) on risk management (note 20)	**17,599**	(4,620)
Other income (note 14)	**683**	980
	76,863	88,068
Expenses		
Production and operating	**16,323**	16,063
Transportation	**4,199**	3,872
Exploration and evaluation (note 6)	**266**	118
General and administrative	**11,814**	9,911
Share-based payments (note 16)	**2,883**	7,434
Loss on disposition (note 5b)	**3,254**	—
Depletion and depreciation (note 5, 7)	**23,624**	17,962
Impairment reversal (note 5a)	**—**	(7,400)
Income from operating activities	**14,500**	40,108
Finance expense (note 18)	**(6,666)**	(10,971)
Change in fair value of marketable securities (note 4)	**(151)**	(634)
Income before income tax	**$ 7,683**	$ 28,503
Deferred income tax (expense) recovery (note 21)	**(2,067)**	15,894
Net income and comprehensive income	**$ 5,616**	$ 44,397
Net income per share (note 15c)		
Basic	**$ 0.08**	$ 0.69
Diluted	**$ 0.08**	$ 0.59

See accompanying notes to the consolidated financial statements.

PERPETUAL ENERGY INC.
Consolidated Statements of Changes in Equity

	Share capital								
	(thousands)		($thousands)		Contributed surplus		Deficit		Total equity
(Cdn$ thousands, except share amounts)									
Balance at December 31, 2022	65,944	$	98,615	$	46,801	$	(30,094)	$	115,322
Net income	—		—		—		5,616		5,616
Common shares issued (note 15, 16)	1,324		498		(2,359)		—		(1,861)
Change in shares held in trust (note 15, 16)	199		(130)		(499)		—		(629)
Share-based payments (note 16)	—		—		2,883		—		2,883
Balance at December 31, 2023	**67,467**	**$**	**98,983**	**$**	**46,826**	**$**	**(24,478)**	**$**	**121,331**

	Share capital								
	(thousands)		($thousands)		Contributed surplus		Deficit		Total equity
(Cdn$ thousands, except share amounts)									
Balance at December 31, 2021	63,567	$	94,809	$	45,731	$	(74,491)	$	66,049
Net income	—		—		—		44,397		44,397
Common shares issued (note 15, 16)	3,174		4,611		(4,611)		—		—
Change in shares held in trust (note 15, 16)	(797)		(805)		(502)		—		(1,307)
Share-based payments (note 16)	—		—		6,183		—		6,183
Balance at December 31, 2022	**65,944**	**$**	**98,615**	**$**	**46,801**	**$**	**(30,094)**	**$**	**115,322**

See accompanying notes to the consolidated financial statements.

PERPETUAL ENERGY INC.
Consolidated Statements of Cash Flows

Years Ended (*Cdn$ thousands*)	**December 31, 2023**	December 31, 2022
Cash flows from operating activities		
Net income	**$ 5,616**	$ 44,397
Adjustments to add (deduct) non-cash items:		
Other income (note 14)	**—**	(348)
Depletion and depreciation (note 5, 7)	**23,624**	17,962
Share-based payments (note 16)	**2,883**	6,183
Deferred income tax expense (recovery) (note 21)	**2,067**	(15,894)
Unrealized gain on risk management contracts (note 20)	**(5,274)**	(3,487)
Change in fair value of marketable securities (note 4)	**151**	634
Finance expense (note 18)	**1,927**	6,424
Loss on disposition (note 5b)	**3,254**	—
Impairment reversal (note 5a)	**—**	(7,400)
Exploration and evaluation (note 6)	**171**	—
Decommissioning obligations settled (note 14)	**(1,566)**	(1,199)
Change in non-cash working capital (note 19)	**(6,136)**	(9,442)
Net cash flows from operating activities	**26,717**	37,830
Cash flows from (used in) financing activities		
Change in revolving bank debt, net of issue costs (note 9)	**(14,909)**	11,886
Payments of lease liabilities (note 13)	**(708)**	(708)
Other liabilities (note 11)	**(554)**	(63)
Payments of royalties	**—**	(6,953)
Change in shares held in trust (note 15, 16)	**(2,490)**	(1,307)
Change in senior notes, net of issues costs (note 12)	**(2,153)**	(834)
Change in non-cash working capital	**—**	—
Net cash flows from (used in) financing activities	**(20,814)**	2,021
Cash flows from (used in) investing activities		
Capital expenditures (note 5)	**(27,605)**	(31,909)
Net proceeds from dispositions (note 5)	**33,727**	—
Purchase of marketable securities (note 4)	**—**	(39)
Change in non-cash working capital (note 19)	**6,247**	(8,993)
Net cash flows from (used in) investing activities	**12,369**	(40,941)
Change in cash	**18,272**	(1,090)
Cash, beginning of year	**—**	1,090
Cash, end of year	**$ 18,272**	$ —

See accompanying notes to the consolidated financial statements.

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 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 consolidated financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements of the Company were approved and authorized for issue by the Board of Directors on March 25, 2024.

a) Critical accounting judgments and significant estimates

The preparation of the consolidated financial statements in conformity with IFRS Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenue and expenses. These judgments, estimates, and assumptions are continuously evaluated and are based on management's experience and all relevant information available to the Company at the time of financial statement preparation. As the effect of future events cannot be determined with certainty, the actual results may differ from estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about the critical judgments and significant estimates made by management are described below and in the relevant notes to the financial statements.

b) Critical accounting judgments:

The following are the critical judgments that management has made in the process of applying the Company's accounting policies. These judgments have the most significant effect on the amounts reported in the consolidated financial statements.

i) Cash-generating units ("CGUs")

The Company allocates its development and production assets to CGUs, identified as the smallest group of assets that generate cash inflows independent of the cash inflows of other assets or groups of assets. Determination of the CGUs is subject to management's judgement and is based on geographical proximity, shared infrastructure, and similar exposure to market risk.

ii) Identification of impairment indicators

Significant judgment is required to assess when internal or external indicators of impairment or impairment reversal exist, and impairment testing is required. Management considers internal and external sources of information including oil and gas commodity prices, expected production volumes, estimated proved and probable oil and gas reserves and rates used to discount the related future cash flow estimates. Judgement is required to assess these factors when determining if the carrying amount of an asset or CGU is impaired, or in the case of a previously impaired asset or CGU, whether the carrying amount of the asset or CGU has been restored.

iii) Exploration and evaluation ("E&E") expenditures

Costs associated with acquiring oil and gas licenses and exploratory drilling are accumulated as exploration and evaluation assets pending determination of technical feasibility and commercial viability. Establishment of technical feasibility and commercial viability is subject to judgment and involves management's review of project economics, resource quantities, expected production techniques, production costs and required capital expenditures to develop and extract the underlying resources. Management uses the establishment of commercial reserves within the exploration area as the basis for determining technical feasibility and commercial viability. Upon determination of commercial reserves, E&E assets attributable to those reserves are tested for impairment and reclassified from E&E assets to a separate category within property, plant and equipment referred to as development and production assets.

iv) Joint arrangements

Judgment is required to determine when the Company has joint control over an arrangement. In establishing joint control, the Company considers whether unanimous consent is required to direct the activities that significantly affect the returns of the arrangement, such as the capital and operating activities of the arrangement.

Once joint control has been established, judgment is also required to classify a joint arrangement. The type of joint arrangement is determined through analysis of the rights and obligations arising from the arrangement by considering its structure, legal form, and terms agreed upon by the parties sharing control. An arrangement where the controlling parties have rights to the assets and revenues, and obligations for the liabilities and expenses, is classified as a joint operation. Arrangements where the controlling parties have rights to the net assets of the arrangement are classified as joint ventures.

v) Deferred taxes

Deferred tax assets are recognized only to the extent it is considered probable that future taxable profits will be sufficient to utilize the underlying deductible temporary differences and unused tax losses associated with the deferred tax asset. This involves an assessment of when those deferred tax assets are likely to reverse and judgment as to whether there will be sufficient taxable profits available to offset the tax assets when they do reverse. The determination of probable future taxable profits involves significant estimates, including proved and probable oil and gas reserves. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

c) Significant estimates:

The following assumptions represent the key sources of estimation uncertainty at the end of the reporting period. As future confirming events occur, the actual results may differ from estimated amounts.

i) Reserves

The Company uses estimates of proved and probable oil and gas reserves to deplete its development and production assets included in PP&E, to assess E&E costs for impairment when transferred to PP&E, to assess for indicators of impairment or impairment reversal on each of the Company's CGUs and if any such indicators exist, to perform an impairment test to estimate the recoverable amount of a CGU and to determine if it is probable that future taxable profits will be sufficient to utilize the underlying deductible temporary differences and unused tax losses associated with the deferred tax asset. Estimates of proved and probable oil and gas reserves are based upon a number of significant assumptions, such as forecasted production volumes, oil and gas commodity prices, operating costs, royalty costs, and future development costs. Additional estimates are made in relation to the marketability of oil and gas, and the assumed effects of regulation by government agencies. The geological, economic and technical factors used to estimate reserves may change from period to period. Changes in the reported reserves could have a material impact on the carrying values of the Company's development and production assets, the calculation of depletion and depreciation, and the timing of decommissioning expenditures.

The estimate of proved and probable oil and gas reserves are evaluated by independent third party reserve evaluators at least annually. This evaluation of proved and proved plus probable oil and gas reserves is prepared in accordance with the reserve definitions contained in National Instrument 51-101 and the COGE Handbook.

The Company is also required to estimate the recoverable amount of exploration and evaluation assets, which consists of undeveloped lands, exploratory drilling assets and bitumen evaluation assets, for impairment testing. The recoverable amount is based on relevant industry sales value data.

ii) Marketable securities

Rubellite Share Purchase Warrants are recorded at fair value using the Black Scholes option pricing model. In assessing the fair value of the warrants, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, and risk-free rate.

iii) Provisions for decommissioning obligations

Decommissioning, abandonment, and site reclamation expenditures for production facilities, wells, and pipelines are expected to be incurred by the Company over many years into the future. Amounts recorded for decommissioning obligations and the associated accretion are calculated based on estimates of the extent and timing of decommissioning activities, future site remediation regulations and technologies, inflation, discount rates and related cash flows. The provision represents management's best estimate of the present value of the future abandonment and reclamation costs required. Actual abandonment and reclamation costs could be materially different from estimated amounts.

iv) Derivative financial instruments

Derivatives are measured at fair value on each reporting date. Fair value is the price that would be received or paid to exit the position as of the measurement date. The Company uses estimated external forecasted market commodity and foreign exchange price curves available at period end and the contracted volumes over the contracted term to determine the fair value of each contract. Changes in market pricing between period end and settlement of the derivative contracts could have a material impact on financial results related to the derivatives.

v) Other liability

The other liability is measured at fair value on each reporting date. 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. Changes in market pricing between period end and settlement could have a material impact on financial results related to the other liability.

vi) Share-based payments

Share options, deferred share options, and long-term incentive awards issued by the Company are recorded at fair value using the Black Scholes option pricing model. In assessing the fair value of share options and deferred share options, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

3. MATERIAL ACCOUNTING POLICIES

a) Basis of consolidation

i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable are considered. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

ii) Jointly owned assets

Many of the Company's oil and gas activities involve jointly owned assets which are not conducted through a separate entity. The consolidated financial statements include the Company's proportionate share of these jointly owned assets, liabilities, revenues and expenses.

b) Financial instrument

Financial instruments comprise cash, accounts receivable, marketable securities, fair value of derivative assets and liabilities, accounts payable and accrued liabilities, revolving bank debt, Term Loan, other liability, and senior notes. These financial instruments are recognized initially at fair value, net of any directly attributable transaction costs.

i) Classification and measurement of financial assets

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at fair value through profit or loss ("FVTPL"):

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at fair value through other comprehensive income ("FVOCI") if it meets both of the following conditions and is not designated at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income ("OCI"). This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following accounting policies apply to the subsequent measurement of financial assets:

a) Financial assets at FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

b) Financial assets at amortized cost

These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

ii) Classification and measurement of financial liabilities

Financial liabilities are classified and measured at amortized cost or FVTPL. A financial liability is classified at FVTPL if it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

The Company has classified cash, accounts receivable, accounts payable and accrued liabilities, revolving bank debt, Term Loan and senior notes as amortized cost. The marketable securities, and other liability have been classified as FVTPL.

iii) Derivative assets and liabilities

The Company has entered into certain financial derivative contracts to manage the exposure to market risks from fluctuations in commodity prices and currency rates. The Company has not designated its financial derivative contracts as effective accounting hedges, and thus has not applied hedge accounting, even though the Company considers all commodity and currency contracts to be economic hedges. As a result, all financial derivative contracts are designated as FVTPL and recorded as derivatives on the statement of financial position at fair value. Changes in the fair value of the commodity price and currency rate derivatives are recognized in net income and comprehensive income.

The Company has accounted for its forward physical delivery fixed-price sales contracts as derivative financial instruments. Accordingly, such forward physical delivery fixed-price sales contracts are designated as FVTPL and recorded as derivatives on the statement of financial position at fair value.

Transaction costs on derivatives are recognized in net income and comprehensive income when incurred.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at FVTPL. Changes in the fair value of separable embedded derivatives are recognized immediately in net income comprehensive income.

c) Property, plant and equipment (PP&E)

i) Development and Production costs

Items of property, plant and equipment, which include development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. The initial cost of property, plant and equipment includes the purchase price or construction costs, costs that are directly attributable to bringing the asset into commercial operations, the initial estimate of decommissioning costs, and borrowing costs for qualifying assets.

Gains and losses on disposition of an item of property, plant and equipment, including development and production assets, are determined by comparing the proceeds from disposition with the carrying amount of property, plant and equipment and are recognized in net income and comprehensive income. Proceeds may include cash, or other non-cash consideration such as retained drilling rights which are fair valued at the time of disposition. The carrying amount of any replaced or disposed item of property, plant and equipment is derecognized.

ii) Subsequent costs

Costs incurred after the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as property, plant and equipment only when they increase the future economic benefits embodied in the specific asset to which they relate. Such capitalized property, plant and equipment generally represent costs incurred in developing proved and/or probable oil and gas reserves and bringing on or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. All other expenditures including the costs of the day-to-day servicing of property, plant and equipment are recognized as production and operating expense in net income and comprehensive income as incurred.

iii) Depletion and depreciation

The Company depletes its net carrying value of development and production assets using the unit-of-production method by reference to the ratio of production in the period to the related proved and probable oil and gas reserves, taking into account estimated forecasted future development costs necessary to bring those reserves into production. The forecasted future development cost estimates are reviewed by independent third-party reserve evaluators at least annually.

Costs associated with office furniture, information technology, and leasehold improvements are carried at cost and are depreciated on a straight-line basis over a period ranging from one to three years.

Depreciation methods, useful lives and residual values are reviewed at each period end date for all classes of property, plant, and equipment.

d) Exploration and evaluation expenditures (E&E)

Pre-license costs, geological and geophysical costs, and lease rentals of undeveloped properties are recognized in net income and comprehensive income as incurred.

E&E costs, consisting of the costs of acquiring oil and gas licenses, are capitalized initially as E&E assets according to the nature of the assets acquired. Costs associated with drilling exploratory wells in an undeveloped area are capitalized as E&E costs. The costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability. When technical feasibility and commercial viability are determined, the relevant expenditure is transferred to property, plant and equipment as development and production assets, after impairment is assessed and any applicable impairment loss is recognized in net income and comprehensive income.

The Company's E&E assets consist of undeveloped lands, exploratory drilling assets, and bitumen evaluation assets. Gains and losses on disposition of E&E assets are determined by comparing the proceeds from disposition with the carrying amount and are recognized in net income and comprehensive income.

e) Right-of-use assets

The Company recognizes right-of-use assets and lease liabilities at the lease commencement date. The assets are measured at the lease liability initially recognized, which comprise the present value of the future lease payments adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use assets are depreciated to the earlier of the end of the useful life of the asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The Company presents right-of-use assets as its own line item on the consolidated statements of financial position. In determining the lease term, management considers the non-cancellable period along with all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. In addition, the right-of-use assets are periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liabilities. The depreciation term of the right-of-use assets is between two and five years.

f) Lease Liabilities

The lease liabilities are initially measured at the present value of the future lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate, which is determined based on judgments about the economic environment in which the Company operates and theoretical analyses about the security provided by the underlying leased asset, the amount of funds required to be borrowed in order to meet the future lease payments associated with the leased asset, and the term for which these funds would be borrowed.

The lease liabilities are measured at amortized cost using the effective interest rate method. They are remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liabilities are remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use assets, or is recorded in profit or loss if the carrying amount of the right-of-use assets has been reduced to zero. Lease payments

are applied against the lease liabilities, with a portion allocated as cash finance expense using the effective interest rate method. The Company presents lease liabilities as their own line item on the consolidated statements of financial position.

g) Impairment

i) Financial assets

The Company has elected to measure loss allowances for trade receivables and contract assets at an amount equal to lifetime expected credit losses ("ECLs"). The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Loss allowances for financial assets are deducted from the gross carrying amount of the assets. Impairment losses on financial assets are presented under "other expenses" in the consolidated statements of income (loss) and comprehensive income (loss).

ii) Non-financial assets

The carrying amounts of the Company's property, plant and equipment, which includes development and production assets, are reviewed at each period end date to determine whether there are any internal or external indicators of impairment or impairment reversal. If any such indicator exists, then the recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together at a CGU level. The estimated recoverable amount of an asset or a CGU is determined based on the higher of its Fair Value less costs of disposal ("FVLCD") and its Value in Use ("VIU"). FVLCD is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The FVLCD of development and production assets is generally determined as the net present value of estimated future cash flows expected to arise from the continued use of the CGU and its eventual disposition, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU. In determining VIU, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. VIU is generally the future cash flows expected to be derived from production of proved and probable oil and gas reserves estimated by the Company's independent third-party reserve evaluators.

An impairment is recognized if the carrying amount of a CGU exceeds the estimated recoverable amount for that CGU. The Company determines the estimated recoverable amount by using the greater of FVLCD and the VIU. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amount of assets in the unit (group of units) on a pro rata basis. Impairment losses are recognized in net income and comprehensive income.

E&E assets are assessed for impairment at the time that any triggering facts and circumstances suggest that the carrying amount exceeds the estimated recoverable amount as well as upon their eventual reclassification to development and production assets in property, plant and equipment. If a test is required as a result of triggering facts and circumstances, the Company considers whether the combined estimated recoverable amount of the CGUs and E&E assets at the total company level is sufficient to cover the combined carrying value of the CGUs and E&E assets.

In respect of other assets, impairment losses recognized in prior years are assessed at each period end date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

h) Share-based payments

Fixed equity awards granted under the equity-settled share-based payment plans and agreements are measured at grant-date fair value. Fair values are determined by means of an option pricing model using the exercise price of the equity instrument granted, the share price at the grant date, the expected life of the grant based on the vesting date and expiry date, estimates of share price volatility, and interest rates over the expected contractual life of the equity award. A forfeiture rate is estimated on the grant date and is subsequently adjusted to reflect the actual number of options that vest.

The costs of the equity-settled share-based payments are recognized within general and administrative expense, production and operating expense, or property, plant and equipment to the extent they are directly attributable, with a corresponding increase in contributed surplus over the vesting period. Upon exercise or settlement of an equity-based instrument, consideration received, and associated amounts previously recorded in contributed surplus are recorded to share capital.

Certain awards granted under the performance share rights plan may be settled in cash, in common shares of the Company, or a combination thereof at the discretion of the Company's Board of Directors.

i) Provisions

Provisions are recognized when the Company has a current legal or constructive obligation as a result of a past event, which can be reliably estimated, and will require the outflow of economic resources to settle the obligation. A non-current provision is determined using the estimated future cash flows discounted at a rate that reflects current market conditions and obligation specific risks.

i) Decommissioning obligations

The Company's activities give rise to dismantling, decommissioning, and site disturbance remediation activities. A provision is recorded for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's estimate of the extent and timing of expenditures required to settle the obligation at the statement of financial position date, using a risk-free interest rate not adjusted for credit risk.

Subsequent to the initial measurement, the obligation is adjusted at the end of each reporting period to reflect the passage of time, changes in the timing and estimate of future cash flows underlying the obligation, and changes in the risk-free rate. The accretion of the provision due to the passage of time is recognized in net income and comprehensive income whereas changes in the provision arising from changes in estimated cash flows or changes in the risk-free rate are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

j) Revenue

Revenue from the sale of heavy crude oil, conventional natural gas and NGL is recognized based on the consideration specified in contracts with customers. The Company recognizes revenue when control of the product transfers to the buyer and collection is reasonably assured. This is generally at the point in time when the customer obtains legal title to the product which is when it is physically transferred to the pipelines or other transportation method agreed upon.

Revenues from processing activities are recognized over time as processing occurs and are generally billed monthly.

Royalty income is recognized monthly as it accrues in accordance with the terms of the royalty agreements.

When allocating the transaction price realized in contracts with multiple performance obligations, management is required to make estimates of the prices at which the Company would sell the product separately to customers. The Company does not currently have any contracts with multiple performance obligations.

If the consideration promised in a contract includes a variable amount, the Company estimates the amount of consideration to which it will be entitled in exchange for transferring the promised goods or services to a customer.

k) Income tax

Income tax expense comprises current and deferred components. Income tax expense is recognized in net income and comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the period end date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be sufficient to utilize the underlying deductible temporary differences and unused tax losses associated with the deferred tax asset. The determination of probable future taxable profits involves significant estimates, including proved and probable oil and gas reserves. Deferred tax assets are reviewed at each period end date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

l) Income per share amounts

Basic income or loss per share is calculated by dividing the net income and comprehensive income by the weighted average number of common shares outstanding during the period. For the dilutive net income per share calculation, the weighted average number of shares outstanding is adjusted for the potential number of shares which may have a dilutive effect on net income.

Diluted income per share is calculated giving effect to the potential dilution that would occur if outstanding warrants, share options, restricted rights, performance share rights, or deferred compensation awards were exercised or converted into common shares. The weighted average number of diluted shares is calculated in accordance with the treasury stock method for warrants, share options, restricted rights, performance share rights and deferred compensation awards. The treasury stock method assumes that the proceeds received from the exercise of all potentially dilutive instruments are used to repurchase common shares at the average market price.

m) Changing regulation

Regulations and government programs regarding emissions and climate-related matters are constantly evolving. With respect to environmental, social and governance (“ESG”) and climate reporting, the IASB has issued an IFRS Disclosure Standard with the aim to develop sustainability disclosure standards that are globally consistent, comparable and reliable. In addition, the Canadian Securities Administrators have issued a proposed National Instrument 51-107 Disclosure of Climate-related Matters. The cost to comply with these standards and others that may be developed over time has not yet been quantified.

n) New Accounting Standards

In January 2020, The IASB issued amendments to IAS 1 *Presentation of Financial Statements* ("IAS 1"), to clarify its requirements for the presentation of liabilities as current or non-current in the statement of financial position. In October 2022, the IASB issued further amendments to IAS 1, which specify the classification and disclosure of a liability with covenants. These amendments to IAS 1 will be effective January 1, 2024 and Perpetual plans to adopt the amendments for annual periods beginning on or after January 1, 2024.

4. 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		(151)
December 31, 2023	**$**	**1,663**

As at December 31, 2023, the Company held 58,500 shares of Rubellite Energy Inc. ("Rubellite") in trust, valued at $0.1 million (December 31, 2022 - $0.1 million) using the Rubellite common share price of $2.01 per share at December 31, 2023 (December 31, 2022 - $1.85 per share).

Investments made in a private technology company were valued at $0.4 million at December 31, 2023 (December 31, 2022 - $0.4 million) (note 23).

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 $1.2 million as at December 31, 2023 (December 31, 2022 - $1.4 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:

	December 31, 2023	December 31, 2022
Dividend Yield (%)	**—**	—
Expected volatility (%)	**40%**	40%
Risk-free interest rate (%)	**3.02%**	3.28%
Contractual life (years)	**2.7**	3.7
Share price	**$2.01**	$1.85
Exercise price	**$3.00**	$3.00
Fair value	**$0.30**	$0.34

5. 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 14)		(4,655)		—		(4,655)
Transfers from exploration and evaluation (note 6)		161		—		161
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 14)		(252)		—		(252)
Disposition (note 5b)		(159,123)		—		(159,123)
December 31, 2023	**$**	**464,901**	**$**	**12,932**	**$**	**477,833**
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		(23,017)		(79)		(23,096)
Disposition (note 5b)		112,074		—		112,074
December 31, 2023	**$**	**(342,258)**	**$**	**(7,723)**	**$**	**(349,981)**
Carrying amount						
December 31, 2022	$	170,497	$	147	$	170,644
December 31, 2023	**$**	**122,643**	**$**	**5,209**	**$**	**127,852**

Future development costs for the year ended December 31, 2023 of $97.6 million (December 31, 2022 – $104.6 million) were included in the depletion calculation. Depletion was $23.0 million (December 31, 2022 - $17.8 million) on development and production assets for the year ended December 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 December 31, 2023 and therefore, an impairment test was not performed.

b) Mannville Disposition

On October 17, 2023 the Company entered into a definitive agreement with a private operator to sell certain assets at Mannville in Eastern Alberta for proceeds of $35.8 million in cash, prior to purchase price adjustments of $2.1 million ("the Mannville Disposition"). The properties included in the Mannville Disposition comprise substantially all of the production attributed to the Company's Eastern Alberta cash-generating unit. On November 22, 2023, the asset sale closed and net cash proceeds of $33.7 million were received. The disposal resulted in a loss of $3.3 million and Perpetual reduced decommissioning obligations by $11.8 million.

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

		December 31, 2023		December 31, 2022
Balance, beginning of period	**$**	**7,168**	$	7,329
Exploration and evaluation expense		**(171)**		—
Transfers to property, plant and equipment (note 5)		**—**		(161)
Balance, end of year	**$**	**6,997**	$	7,168

During the year ended December 31, 2023, $0.1 million was charged directly to E&E expense in the statement of income and comprehensive income (December 31, 2022 - $0.1 million).

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

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.

7. 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 31, 2022	$	1,591	$	610	$	247	$	2,448
Additions		—		181		—		181
December 31, 2022	$	1,591	$	791	$	247	$	2,629
Additions		3,142		228		107		3,477
December 31, 2023	**$**	**4,733**	**$**	**1,019**	**$**	**354**	**$**	**6,106**
Accumulated depreciation								
January 31, 2022	$	(755)	$	(349)	$	(204)	$	(1,308)
Depreciation		(258)		(170)		(29)		(457)
December 31, 2022	$	(1,013)	$	(519)	$	(233)	$	(1,765)
Depreciation		(280)		(179)		(32)		(491)
December 31, 2023	**$**	**(1,293)**	**$**	**(698)**	**$**	**(265)**	**$**	**(2,256)**
Carrying amount								
December 31, 2022	$	578	$	272	$	14	$	864
December 31, 2023	**$**	**3,440**	**$**	**321**	**$**	**89**	**$**	**3,850**

8. 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 seven-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. Perpetual filed its Affidavit of Records on July 31, 2023.

On December 18, 2023 the Trustee filed an affidavit with the Court of King's Bench of Alberta in support of the Trustee's amended summary judgement application which has not yet been filed or scheduled with the Court of King's Bench of Alberta. Additionally, on December 27, 2023 the Trustee also submitted a statement of concern related to the transfer of licenses related to certain Mannville assets that were disposed of during the fourth quarter of 2023.

As at December 31, 2023 managements position is that the Company is more likely than not to be 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. Subsequent to December 31, 2023 the Company has entered into an agreement (the "Settlement Agreement") with the Trustee to resolve the Sequoia Litigation. See note 25 for additional information.

9. REVOLVING BANK DEBT

At December 31, 2023, the Company's first lien credit facility (the "Credit Facility") had a borrowing limit of $30.0 million (December 31, 2022 - $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 July 31, 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 July 31, 2024 and any outstanding balance would become repayable at that time.

As at December 31, 2023, nil was drawn (December 31, 2022 – $14.9 million) and $1.3 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 December 31, 2023 was 9.1%.

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 December 31, 2023, the Credit Facility was not subject to any financial covenants and the Company was in compliance with all customary non-financial covenants and was presented as a long-term liability.

Subsequent to December 31, 2023 the maturity date on the Company's Credit Facility of July 31, 2024, in the event the January 23, 2025 maturity date of the Senior Notes has not been extended by a period of at least two years, has been extended to November 30, 2024 and currently no amounts have been drawn on the Credit Facility. See note 25 for additional information.

10. TERM LOAN

			December 31, 2023		December 31, 2022	
	Maturity date	**Interest rate**	**Principal**	**Carrying Amount**	Principal	Carrying amount
Term loan	December 31, 2024	8.1%	**$ 2,671**	**$ 2,593**	$ 2,671	$ 2,524

The second lien Term Loan has a cross-default provision with the Credit Facility and contains substantially similar provisions and covenants as the Credit Facility (note 9). 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 the loans under the Credit Facility.

At December 31, 2023, the Term Loan was not subject to any financial covenants and the Company was in compliance with all customary non-financial covenants.

Subsequent to December 31, 2023, in concurrence with the execution of the Settlement Agreement, the second lien term loan has been repaid and cancelled. See note 25 for additional information.

11. 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 paid on June 30, 2023. For 2022, $1.3 million was earned and $0.4 million was paid on June 30, 2023, with the remaining $0.9 million to be paid on June 30, 2024. This leaves a maximum remaining total obligation that was earned for 2023 of $1.9 million. As the remaining balance is due on June 30, 2024, the fair value of the contingent liability as at December 31, 2023 was recorded at $2.8 million and classified as a current liability. The change in fair value of this liability was recorded as a non-cash finance expense in the statements of income and comprehensive income.

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

	December 31, 2023	December 31, 2022
Balance, beginning of period	**$ 3,002**	$ 1,387
Cash payments	**(554)**	(63)
Change in fair value	**340**	1,678
Balance, end of period	**$ 2,788**	$ 3,002

	December 31, 2023	December 31, 2022
Current	**$ 2,788**	$ 532
Non-current	**—**	2,470
Total other liability	**$ 2,788**	$ 3,002

The Company has designated the other liability as a financial liability which is measured at fair value through profit and loss, estimated by discounting potential contingent payments. For the year ended December 31, 2023, an unrealized loss of $0.3 million (2022– $1.7 million) is included in non-cash finance expense related to the change in fair value of other liability (note 18).

At December 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 and comprehensive income for the period would change by nil as the amount owing under the obligation at December 31, 2023 was fixed at that time. If forecasted crude oil commodity prices increased or decreased by $5.00 per bbl the fair value of the other liability and net income and comprehensive income for the period would change by nil as as the amount owing under the obligation at December 31, 2023 was fixed at that time.

12. SENIOR NOTES

			December 31, 2023		December 31, 2022	
	Maturity date	**Interest rate**	**Principal**	**Carrying Amount**	Principal	Carrying amount
Senior notes	January 23, 2025	8.75%	**$ 33,229**	**$ 33,099**	$ 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 and the July 23, 2023 semi-annual interest payments 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 December 31, 2023, 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%.

During 2023 the Company purchased and cancelled a portion of the Senior Notes balance with a carrying value of $2.4 million (2022 - $0.9 million) for gross costs of $2.2 million (2022 - $0.8 million). A gain on extinguishment of $0.2 million (2022 - $0.1 million) was included in non-cash finance expense (note 18).

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

At December 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.

Subsequent to December 31, 2023, the Company has provided notice for the early redemption of all of the principal amount of the $33.2 million aggregate 8.75% senior secured third lien notes maturing on January 23, 2025 on April , 2024. Entities controlled or directed by the President and Chief Executive Officer, holding $26.2 million of 2025 Senior Notes, have provided written confirmation to Perpetual of their election to be a continuing holder of 2025 Senior Notes as amended. See note 25 for further information.

13. LEASE LIABILITIES

	December 31, 2023	December 31, 2022
Balance, beginning of period	**$ 1,575**	$ 2,102
Additions (note 7)	**3,460**	181
Interest on lease liabilities (note 18)	**148**	116
Payments	**(839)**	(824)
Total lease liabilities	**$ 4,344**	$ 1,575
Current	**$ 508**	$ 705
Non-current	**3,836**	870
Total lease liabilities	**$ 4,344**	$ 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 December 31, 2023 were between 4.3% and 6.6% (2022 – 4.3% and 6.6%).

14. DECOMMISSIONING OBLIGATIONS

	December 31, 2023	December 31, 2022
Obligations incurred, including acquisitions	**$ 274**	$ 687
Change in rates	**(3,245)**	(5,325)
Change in estimates	**2,719**	(17)
Change in decommissioning obligations related to PP&E (note 5)	**(252)**	(4,655)
Obligations settled (cash)	**(1,566)**	(1,199)
Obligations settled[1] (non-cash)	**—**	(348)
Obligations disposed (note 5b)	**(11,813)**	—
Accretion (note 18)	**793**	727
Change in decommissioning obligations	**(12,838)**	(5,475)
Balance, beginning of year	**27,452**	32,927
Balance, end of year	**$ 14,614**	$ 27,452
Decommissioning obligations – current[2]	**$ 1,527**	$ 1,688
Decommissioning obligations – non-current	**13,087**	25,764
Total decommissioning obligations	**$ 14,614**	$ 27,452

(1) During the year ended December 31, 2023, obligations settled (non-cash) of nil (2022 – $0.3 million) 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 (note 18). 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:

	December 31, 2023	December 31, 2022
Undiscounted obligations	**$ 14,605**	$ 32,664
Average risk-free rate	**3.0%**	3.3%
Inflation rate	**1.6%**	2.1%
Expected timing of settling obligations	**1 to 25 years**	1 to 25 years

15. SHARE CAPITAL

	December 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	**1,324**	**498**	3,174	4,611
Shares held in trust purchased (b)	**(1,070)**	**(627)**	(1,334)	(1,307)
Shares held in trust issued (b)	**1,269**	**497**	537	502
Balance, end of year	**67,467**	**$ 98,983**	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 16). Share capital is presented net of the number and cumulative purchase cost of shares held by the trustee that have not yet been issued to employees. As at December 31, 2023, 1.1 million shares were held in trust (December 31, 2022 – 1.3 million).

c) Per share information

(*thousands, except per share amounts*)	**December 31, 2023**	December 31, 2022
Net income – basic and diluted	**$ 5,616**	$ 44,397
Weighted average shares		
Issued common shares	**67,466**	65,213
Effect of the change in shares held in trust	**(728)**	(765)
Weighted average common shares outstanding – basic[1]	**66,738**	64,448
Weighted average common shares outstanding – diluted[1][2]	**74,129**	74,798
Net income per share – basic	**$ 0.08**	$ 0.69
Net income per share – diluted	**$ 0.08**	$ 0.59

(1) Shares outstanding are presented net of 1.1 million shares held in trust (December 31, 2022 - 1.3 million).
(2) For the year ended December 31, 2023, 9.0 million of potentially issuable common shares through the share-based compensation plan (year ended December 31, 2022 - 4.3 million) were excluded as they were not dilutive.

16. SHARE-BASED PAYMENTS

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

	December 31, 2023	December 31, 2022
Compensation awards	**$ 953**	$ 665
Share options	**334**	194
Performance share rights	**1,596**	6,575
Share-based payments[1]	**$ 2,883**	$ 7,434

(1) For the year ended December 31, 2023, the Company recorded nil (year ended December 31, 2022 - $1.3 million) related to equity settled transactions that settled in cash.

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

	Compensation awards					
(thousands)	**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[5]	—	—	—	1,014	—	1,014
Forfeited	(267)	(42)	(1,725)	—	—	(2,034)
December 31, 2022	5,886	2,868	3,601	2,547	—	14,902
Granted[2][3]	1,465	2,282	1,490	1,116	2,273	8,626
Exercised for common shares[4]	(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[5]	—	—	—	386	—	386
Forfeited	(15)	(88)	(60)	—	—	(163)
December 31, 2023	**6,198**	**3,686**	**4,509**	**1,949**	**—**	**16,342**

(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.
(2) During the year ended December 31, 2023, 1.5 million deferred options, 2.3 million deferred shares, 1.5 million share options, 1.1 million performance share rights and 2.3 million restricted share right were granted to Officers, Directors, and employees of the Company.
(3) During the year ended December 31, 2023, 0.9 million deferred options, 0.4 million deferred shares, 0.5 million share options and 2.4 million performance share rights were exercised for a cash payment of $1.9 million (December 31, 2022 - nil).
(4) Performance share rights are subject to a performance multiplier of 0.5 to 2.0.

During the year ended December 31, 2023, the Company granted 8.6 million share-based payment awards, comprised of deferred options, deferred shares, share options, performance share rights and restricted share rights (2022 – 4.4 million). The Company used the Black Scholes pricing model to calculate the estimated fair value of the outstanding deferred options (note 16(a)) and share options (note 16(b)) at the date of grant. The following assumptions were used to arrive at the estimate of fair value as at the date of grant:

	2023	2022
Dividend yield (%)	**0**	0
Forfeiture rate (%)	**5.0-10.0**	5.0-10.0
Expected volatility (%)	**60**	60
Risk-free interest rate (%)	**3.4-4.5**	2.2-3.2
Expected life (years)	**3.4**	3.2-3.4
Vesting period (years)	**4**	4
Contractual life (years)	**5**	5
Weighted average share price at grant date	**0.55**	1.04
Weighted average fair value at grant date	**0.57**	1.07-1.08

During the year ended December 31, 2023, 2.1 million restricted rights were issued in exchange for the exercise of performance share rights (2022 – 2.4 million), 0.1 million in exchange for the exercise of deferred shares (2022 – 0.8 million), and 0.1 million in exchange for deferred options (2022 – nil).

a) Compensation awards

Deferred options

The Company has deferred option agreements in place with certain employees whereby they may be entitled to receive shares of the Company purchased on the open market by an independent trustee if they remain employees of the Company during such time and exercise their options. Deferred options generally vest one quarter on each year of the term, with expiry occurring five years after issuance. The shares purchased by the independent trustee are reported as shares held in trust (note 16(b)).

The following table summarizes information about the deferred options and performance-based long-term incentive awards outstanding:

	Deferred options outstanding			Deferred options exercisable	
Range of exercise prices	**Number of deferred options (thousands)**	**Average contractual life (years)**	**Weighted average exercise price ($/share)**	**Number of deferred options (thousands)**	**Weighted average exercise price ($/share)**
$0.00 to $0.29	2,506	2.0	0.01	1,439	0.01
$0.30 to $0.48	744	2.7	0.34	274	0.34
$0.49 to $1.33	2,948	4.2	0.79	376	1.00
Total	6,198	3.1	0.42	2,089	0.23

Deferred shares

The Company also has deferred share agreements in place with directors and certain employees whereby, in the case of directors, upon retirement from the Board of Directors, or in the case of employees, over a period of two years if they remain employees of the Company during such time, may be entitled to receive at the discretion of the Board of Directors, cash, a grant of restricted rights (note 16(d)), or shares of the Company purchased on the open market by an independent trustee. The shares purchased by the independent trustee are reported as shares held in trust (note 16(b)).

The fair value of these awards is assessed on the grant date by factoring in the weighted average common share trading price for the five days preceding the grant date and is reduced by an estimated forfeiture rate of 5% (2022 – 5%). The fair value is recognized as share-based payment expense over the vesting period with a corresponding increase to contributed surplus. Upon exercise of these agreements in exchange for restricted rights, the value in contributed surplus pertaining to the exercise is recorded as share capital. Upon exercise of these agreements in exchange for shares held in trust, the shares held in trust account is reduced by the number of shares issued using the average cost base of purchased shares and offset to contributed surplus.

The estimated average value of deferred shares at the time of grant during the year ended December 31, 2023 was $0.58 per deferred share (2022 – $1.07).

b) Share options

Perpetual's share option plan provides a long-term incentive to executive officers and directors associated with the Company's long-term performance. The Board of Directors administers the share option plan and determines participants, number of share options and terms of vesting. The exercise price of the share options granted shall not be less than the value of the weighted average trading price for the Company's common shares for the five trading days immediately preceding the date of grant. Share options granted vest evenly over four years, with expiry occurring five years after issuance.

The following table summarizes information about share options outstanding:

	Options outstanding			Options exercisable	
Range of exercise prices	**Number of share options (thousands)**	**Average contractual life (years)**	**Weighted average exercise price ($/share)**	**Number of share options (thousands)**	**Weighted average exercise price ($/share)**
$0.00 to $0.29	914	1.6	0.13	576	0.12
$0.30 to $0.75	2,318	4.0	0.47	414	0.34
$0.76 to $1.33	1,277	3.6	1.04	319	1.04
Total	4,509	3.4	0.57	1,309	0.41

There were 1.5 million share options granted during 2023 (2022 – 1.3 million).

c) Performance share rights

The Company has an equity-settled performance share rights plan for the Company's executive officers. Performance rights granted under the performance share rights plan vest two years after the date upon which the performance rights were granted. The performance rights that vest and become redeemable are a multiple of the performance rights granted, dependent upon the achievement of certain performance metrics over the vesting period. Vested performance rights can be settled in cash or restricted rights (note 16(d)), at the discretion of the Board of Directors. Performance rights are forfeited if participants of the performance share rights plan leave the organization other than through retirement or termination without cause prior to the vesting date.

The fair value of a performance share right award is determined at the date of grant by using the closing price of common shares and multiplied by the estimated performance multiplier. As at December 31, 2023, a performance multiplier of 0.5 has been assumed for unvested awards granted in 2022 and 2023. Fluctuations in share-based payments may occur due to changes in estimates of performance outcomes. The amount of share-based payment expense is reduced by an estimated forfeiture rate of 5% (2022 – 5%) for outstanding awards. The estimated value of performance share rights granted during the year ended December 31, 2023 was $0.66 per performance share right (2022 – $0.97).

In 2018, the Company introduced a performance-based long-term incentive awards plan (the "PLTI" plan) for the executive officers. The awards granted pursuant to the plan are tied to specific individual-based performance metrics established by the Board which can be based on "total shareholder return" or other metrics specifically designed to align with value creation for shareholders and to incentivize and retain key executive officers. The awards vest evenly over four years, with expiry occurring five years after issuance. Upon vesting, award holders may

be entitled to receive, at the discretion of the Board of Directors, cash, a grant of restricted rights (note 16(d)), or a combination of cash and restricted rights.

Certain awards granted under the PLTI plan 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 compensation 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. Upon exercise of these awards in exchange for cash, the liability is reduced. Upon exercise of these awards in exchange for a variable number of shares, the value in liabilities pertaining to the exercise is recorded as share capital. In 2023, the Company made payments of nil (2022 – $1.3 million) pursuant to cash-settled share-based payment awards. As at December 31, 2022, nil had been accrued pursuant to cash-settled share-based compensation awards (December 31, 2022 – nil).

d) Restricted rights

The Company has a restricted rights plan for certain officers, employees and consultants. Restricted rights granted under the restricted rights plan may be exercised during a period (the "Exercise Period") not exceeding five years from the date upon which the restricted rights were granted. The restricted rights typically vest on a graded basis over two years. At the expiration of the Exercise Period, any restricted rights which have not been exercised shall expire. Upon vesting, the plan participant is entitled to receive one common share for each right held at a cost of $0.01 per share.

The fair value of an award granted under the restricted rights plan is assessed on the grant date by factoring in the weighted average common share trading price for the five days preceding the grant date. This fair value is recognized as share-based payment expense over the vesting period with a corresponding increase to contributed surplus. During the year ended December 31, 2023, the Company did not grant any restricted rights to employees, other than to settle performance share rights and deferred shares.

Restricted rights granted upon the exercise of performance share rights (note 16(c)) vest on the grant date and have a 90-day exercise period. Restricted rights granted upon the exercise of deferred compensation awards (note 16(a)) vest on the grant date and have a 30-day exercise period. No value is assigned to restricted rights issued pursuant to those plans as the value and expense have been previously recognized over the vesting period of the underlying performance share rights and deferred compensation awards.

17. REVENUE

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

Natural gas volumes sold pursuant to the Company's market diversification contract are sold at fixed volume obligations and priced at daily index prices, 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:

	December 31, 2023	December 31, 2022
Oil and natural gas revenue		
Natural gas	**$ 27,374**	$ 66,105
Oil	**23,464**	29,538
NGL	**12,387**	13,368
Total oil and natural gas revenue	**$ 63,225**	$ 109,011

Included in accounts receivable at December 31, 2023 is $2.6 million of accrued oil and natural gas revenue related to December 2023 production (December 31, 2022 – $10.0 million related to December 2022 production).

18. FINANCE EXPENSE

The components of finance expense are as follows:

	December 31, 2023	December 31, 2022
Cash finance expense		
Interest on revolving bank debt	$ 1,350	$ 1,031
Interest on term loan	216	216
Interest on senior notes	3,025	3,184
Interest on lease liabilities (note 13)	148	116
Total cash finance expense	4,739	4,547
Non-cash finance expense		
Gain on senior note extinguishment (note 12)	(209)	(101)
Amortization of debt issue costs	1,003	1,864
Accretion on decommissioning obligations (note 14)	793	727
Change in fair value of other liability (note 11)	340	1,678
Change in fair value of royalty obligations (1)	—	2,256
Total non-cash finance expense	1,927	6,424
Finance expense recognized in net income	**$ 6,666**	$ 10,971

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

19. CHANGES IN NON-CASH WORKING CAPITAL INFORMATION

	December 31, 2023	December 31, 2022
Accounts receivable	$ (685)	$ (4,133)
Prepaid expenses and deposits	(322)	(654)
Change in non-cash working capital on disposition and other	(1,782)	—
Inventory	674	(387)
Accounts payable and accrued liabilities	2,226	(13,261)
Change in non-cash working capital	**$ 111**	$ (18,435)

The change in non-cash working capital has been allocated to the following activities:

	December 31, 2023	December 31, 2022
Operating	$ (6,136)	$ (9,442)
Investing	6,247	(8,993)
Change in non-cash working capital	**$ 111**	$ (18,435)

20. FINANCIAL RISK MANAGEMENT

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and has implemented and monitors compliance with risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from joint venture partners, oil and natural gas marketers and derivative contract counterparties.

Receivables from oil and natural gas marketers are normally collected on the 25th day of the month following sales. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large, well established purchasers. The Company historically has not experienced any significant collection issues with its oil and natural gas marketing receivables. Joint venture receivables are typically collected within one to three months of the joint venture bill being issued to the partner. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to expenditure. However, the receivables are generally from participants in the oil and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs, the risk of unsuccessful drilling, and oil and natural gas production; in addition, further risk exists with joint venture partners as disagreements occasionally arise that increase the potential for non-collection. The Company does not typically obtain collateral from oil and natural gas marketers or joint venture partners, however, the Company does have the ability in some cases to withhold production or amounts payable to joint venture partners in the event of non-payment.

The Company manages the credit exposure related to cash and derivatives by investing with and engaging in risk management transactions with credit worthy counterparties, and periodically monitoring counterparty credit assessments.

The combined carrying amount of cash, accounts receivable and the fair value of derivative assets at December 31, 2023 was $43.9 million (December 31, 2022 – $19.7 million), representing the Company's maximum credit exposure. The amount of the loss allowance was

determined based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The total amount of accounts receivables 90 days past due is nominal as at December 31, 2023 (December 31, 2022 – nominal).

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking harm to the Company's reputation.

c) Market risk

Market risk is the risk that changes in market prices such as foreign exchange rates, commodity prices and interest rates will affect the Company's net income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

The Company utilizes both financial derivatives and fixed price physical delivery sales contracts to manage market risks related to commodity prices and foreign currency rates. All such transactions are conducted in accordance with the Company's Risk Management Policy, which has been approved by the Board of Directors.

Commodity price risk is the risk that the fair value or future cash flow will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted not only by the relationship between the Canadian and United States dollar, but also by world economic events that dictate the levels of supply and demand. The Company manages commodity price risk using various financial derivatives and fixed price physical delivery sales contracts.

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

	December 31, 2023	December 31, 2022
Natural gas contracts	**$ 8,809**	$ 2,841
Foreign exchange contracts	**312**	30
Oil contracts	**—**	976
Risk management contracts	**$ 9,121**	$ 3,847
Risk management contracts – current asset	**$ 6,519**	$ 3,847
Risk management contracts – non-current asset	**2,602**	—
Risk management contracts	**$ 9,121**	$ 3,847

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

	December 31, 2023	December 31, 2022
Unrealized gain on foreign exchange contracts	**$ 282**	$ 30
Unrealized gain on natural gas contracts	**5,968**	2,159
Unrealized gain (loss) on oil contracts	**(976)**	1,298
Unrealized gain on fair value of derivatives	**5,274**	3,487
Realized gain on foreign exchange contracts	**173**	—
Realized gain (loss) on natural gas contracts	**18,057**	(491)
Realized loss on oil contracts	**(631)**	(4,129)
Realized gain (loss) on financial derivatives	**17,599**	(4,620)
Change in fair value of derivatives	**$ 22,873**	$ (1,133)

Natural gas contracts

At December 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	17,500 GJ/d	Jan 1 - Jan 31, 2024	AECO 5A (CAD$/GJ)	Swap - sold	$3.07
Natural gas	17,500 GJ/d	Feb 1 - Feb 28, 2024	AECO 5A (CAD$/GJ)	Swap - sold	$3.13
Natural gas	15,000 GJ/d	Mar 1 - Mar 31, 2024	AECO 5A (CAD$/GJ)	Swap - sold	$3.26
Natural gas	15,000 GJ/d	Apr 1 - Oct 31, 2024	AECO 5A (CAD$/GJ)	Swap - sold	$2.84
Natural gas	15,000 GJ/d	Nov 1, 2024 - Mar 31, 2025	AECO 5A (CAD$/GJ)	Swap - sold	$3.84
Natural gas	25,000 GJ/d	Jan 1 - Mar 31, 2025	AECO 5A (CAD$/GJ)	Swap - sold	$3.67
Natural gas	15,000 GJ/d	Apr 1 - Oct 31, 2025	AECO 5A (CAD$/GJ)	Swap - sold	$3.19
Natural gas	10,000 GJ/d	Nov 1 - Dec 31, 2025	AECO 5A (CAD$/GJ)	Swap - sold	$3.41

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

Commodity	Volumes sold	Term	Reference/ Index	Contract Traded Bought /sold	Market Price
Natural gas	5,000 GJ/d	Nov 1, 2025 - Mar 31, 2026	AECO 5A (CAD$/GJ)	Swap - sold	$4.00
Natural gas	10,000 GJ/d	Jan 1 - Mar 31, 2025	AECO 5A (CAD$/GJ)	Swap - bought	$3.11
Natural gas	5,000 GJ/d	Nov 1, 2024 - Mar 31, 2025	AECO 5A (CAD$/GJ)	Swap - bought	$3.00

Natural gas contracts - sensitivity analysis

At December 31, 2023, if future natural gas prices changed by $0.25 per GJ with all other variables held constant, net income and comprehensive income for the year would change by $2.5 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 December 31, 2023, 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$/CAD$)	$1,472,000 US$/month	Jan 1 – Mar 31, 2024	1.3750
Average rate forward (US$/CAD$)	$264,000 US$/month	Apr 1 – Oct 31, 2024	1.3710

Foreign exchange contracts - sensitivity analysis

As at December 31, 2023, if future CAD$/US$ exchange rates changed by CAD$0.05 with all other variables held constant, net income and comprehensive income for the year 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. 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 financial assets and liabilities, excluding working capital, is attributable to the following fair value hierarchy levels:

As at December 31, 2023	Gross	Netting[1]	Carrying Amount	Fair value Level 1	Fair value Level 2	Fair value Level 3
Financial assets						
Fair value through profit and loss						
Marketable securities	$ 1,663	$ —	$ 1,663	$ —	$ 1,663	$ —
Risk management contracts	9,165	(44)	9,121	—	9,121	—
Financial liabilities						
Financial liabilities at amortized cost						
Senior notes	(33,099)	—	(33,099)	—	(33,099)	—
Term loan	(2,593)	—	(2,593)	—	—	(2,593)
Fair value through profit and loss						
Other liability	(2,788)	—	(2,788)	—	—	(2,788)
Risk management contracts	(44)	44	—	—	—	—

(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.

As at December 31, 2022	Gross	Netting[1]	Carrying Amount	Fair value Level 1	Fair value Level 2	Fair value Level 3
Financial assets						
Fair value through profit and loss						
Marketable securities	$ 1,814	$ —	$ 1,814	$ —	$ 1,814	$ —
Risk management contracts	3,970	(123)	3,847	—	3,847	—
Financial liabilities						
Financial liabilities at amortized cost						
Revolving bank debt	(14,909)	—	(14,909)	(14,909)	—	—
Senior notes	(34,527)	—	(34,527)	—	(34,527)	—
Term loan	(2,524)	—	(2,524)	—	—	(2,524)
Fair value through profit and loss						
Other liability	(3,002)	—	(3,002)	—	—	(3,002)
Risk management contracts	(123)	123	—	—	—	—

(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.

21. DEFERRED INCOME TAXES

The provision for income taxes in the consolidated financial statements differs from the result that would have been obtained by applying the combined federal and provincial tax rate to the Company's net income before income tax. This difference results from the following items:

	December 31, 2023	December 31, 2022
Net income before income tax	**$ 7,889**	$ 28,503
Combined federal and provincial tax rate	**23%**	23%
Computed income tax expense	**$ 1,814**	$ 6,556
Increase (decrease) in income taxes resulting from:		
Non-deductible expenses	**255**	1,422
Non-taxable capital (gain) loss	**(24,364)**	73
Other	**(163)**	(471)
Change unrecognized tax assets	**24,525**	(23,474)
Deferred tax (recovery)	**$ 2,067**	$ (15,894)

The following table summarizes the deferred tax liabilities of the Company and its subsidiaries, which are offset against certain deferred tax assets; the changes year over year all flowed through deferred income tax expense:

	December 31, 2023	December 31, 2022
Liabilities:		
Property, plant and equipment	**$ (18,370)**	$ (27,798)
Senior notes	**(43)**	(257)
Term loan	**(18)**	(34)
Share investment	**(176)**	(194)
Fair value of derivatives	**(2,098)**	(884)
Right-of-use-assets	**(885)**	(199)
Total deferred tax liabilities	**(21,590)**	(29,366)
Assets:		
Decommissioning obligations	**$ 3,361**	$ 6,314
Lease liabilities	**999**	362
Share and debt issue costs	**191**	364
Other liabilities	**641**	690
Non-capital losses[1]	**30,225**	37,530
Total deferred tax assets	**35,417**	45,260
Net deferred tax asset	**$ 13,827**	$ 15,894

(1) Net of deferred income of $38.0 million for the year ended December 31, 2023 (year ended December 31, 2022 - $24.0 million).

As at December 31, 2023, the Company had approximately $372.0 million (December 31, 2022 - $158.0 million) of capital losses available for future use, which have no expiry date. During the year, the Company realized a capital loss of $212.0 million due to the deemed disposition of certain partnership interests. Deferred income tax assets have not been recognized in respect of capital losses because it is not probable that future taxable capital gains will be available against which the Company can utilize the benefits.

As at December 31, 2023, the Company had approximately $169.0 million (December 31, 2022 – $187.0 million) of non-capital losses available for future use. The non-capital losses expire between 2036 and 2043.

The development and production assets and facilities owned by the Company and its subsidiaries have an approximate tax basis of $55.0 million (December 31, 2022 – $57.6 million) available for future use as deductions from taxable income, as indicated below:

	December 31, 2023	December 31, 2022
Canadian oil & gas property expense	**$ 2,066**	$ 4,483
Canadian development expense	**35,489**	33,368
Undepreciated capital cost	**17,422**	19,773
Total tax pools	**$ 54,977**	$ 57,624

22. KEY MANAGEMENT PERSONNEL

The Company has defined key management personnel as executive officers, as well as the Board of Directors, as they have the collective authority and responsibility for planning, directing and controlling the activities of the Company. The following table outlines the total compensation expense for key management personnel:

For the years ended	**December 31, 2023**	December 31, 2022
Short-term compensation	**$ 2,925**	$ 4,792
Share-based payments	**862**	1,527
	$ 3,787	$ 6,319

23. 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 year ended December 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 $6.9 million (December 31, 2022 - $5.6 million). Included within this amount are $3.4 million (2022 - $1.9 million) of costs billed under the MSA. The Company recorded an accounts receivable of $1.9 million owing from Rubellite as at December 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 (note 4) at December 31, 2023 (December 31, 2022 - $0.4 million). There were no amounts outstanding or receivable at December 31, 2023 (December 31, 2022 - nil).

24. CONTRACTUAL OBLIGATIONS

As at December 31, 2023, the Company's minimum contractual obligations and lease commitments over the next three years and thereafter, excluding estimated interest payments, are as follows:

	2024	2025	2026	2027 and thereafter	Total
Contractual obligations					
Accounts payable and accrued liabilities	$ 21,188	$ —	$ —	$ —	$ 21,188
Term loan, principal amount	2,671	—	—	—	2,671
Senior notes, principal amount	—	33,229	—	—	33,229
Other liability	2,788	—	—	—	2,788
Head Office lease	581	517	540	5,610	7,248
Pipeline transportation commitments	1,964	1,682	335	—	3,981
Total	**$ 29,192**	**$ 35,428**	**$ 875**	**$ 5,610**	**$ 71,105**

25. SUBSEQUENT EVENTS

Resolution of Sequoia Litigation

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, on March 21, 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 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. 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.

Term Loan Repayment

On March 22, 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.

2025 Senior Notes Redemption

On March 22, 2024 the Company provided 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 will be CDN $1,000 for each $1,000 principal amount of 2025 Senior Notes including interest paid in kind ("PIK") and all accrued and unpaid interest (the "Redemption Price"). In connection with this early redemption, a holder may make elect 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. $22.29 per $1,000 principal amount of 2025 Senior Notes, representing all accrued and unpaid interest, will be paid to 2025 Senior Notes holders on the Redemption Date who do not make such an election to continue as a noteholder. All interest on the principal amount of 2025 Senior Notes that are redeemed shall cease to accrue and be payable from and after the Redemption Date.

Holders of 2025 Senior Notes who make an irrevocable election to amend the terms of their 2025 Senior Notes are required to do so no later than two business days prior to the Redemption Date. These amendments provide the Company with continuation of committed capital and transactional flexibility including 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. Entities controlled or directed by the President and Chief Executive Officer, holding $26.2 million of 2025 Senior Notes, have provided written confirmation to Perpetual of their election 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.

The Company's existing first lien credit facility (the "Credit Facility") has been amended to provide for these matters which includes the first lien lenders' consent to resolve the Sequoia litigation, conditional on completion of the Senior Notes redemption and Court approval. The borrowing base under the Credit Facility remains unchanged at $30.0 million, with the next borrowing base redetermination date scheduled on or before May 31, 2024. The Credit Facility and the second lien security provided with respect to the Settlement Principal contains certain restrictions on any potential refinancing and cash repayment of the 2025 Senior Notes.

DIRECTORS

Susan L. Riddell Rose
President, Chief Executive Officer and Director

Linda A. Dietsche
Independent Director(1)(2)(3)(4)

Geoffrey C. Merritt
Independent Director(1)(2)(3)(4)

Ryan A. Shay
Vice President, Finance and Chief Financial Officer and Director

Steven L. Spence
Independent Director(1)(2)(3)(4)

(1) Member of Audit Committee
(2) Member of Reserves Committee
(3) Member of Compensation and Corporate Governance Committee
(4) Member of Environmental, Health & Safety Committee

OFFICERS

Susan L. Riddell Rose
President, Chief Executive Officer and Director

Ryan A. Shay
Vice President, Finance and Chief Financial Officer and Director

Ryan M. Goosen
Vice President, Business Development and Land

Jeffrey R. Green
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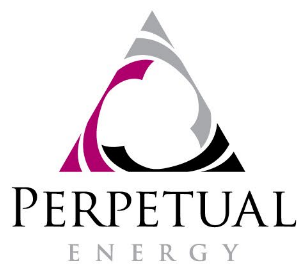
RESERVE EVALUATION CONSULTANTS

McDaniel & Associates Consultants Ltd.

REGISTRAR AND TRANSFER AGENT

Odyssey Trust Company



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