DECEMBER 31, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

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The following is management's discussion and analysis ("MD&A") of Perpetual Energy Inc.'s ("Perpetual" or the "Corporation") operating and financial results for the year ended December 31, 2013 as well as information and estimates concerning the Corporation's future outlook based on currently available information. This discussion should be read in conjunction with the Corporation's audited consolidated financial statements and accompanying notes for the years ended December 31, 2013 and 2012. 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 International Financial Reporting Standards ("IFRS"). Readers are referred to the advisories for additional information regarding forecasts, assumptions and other forward-looking information contained in the "Forward Looking Information" section of this MD&A. The date of this MD&A is March 5, 2014.

NATURE OF BUSINESS: Perpetual is an oil and natural gas based energy company headquartered in Calgary, Alberta. Over the past five years, Perpetual has transitioned its business from a shallow gas focused cash flow distributing energy trust to build a diversified, growth-oriented, exploration, production and marketing company. Perpetual has a spectrum of opportunities in its resource-style portfolio of assets to support its growth strategy including liquids-rich natural gas ("liquids-rich") assets in the deep basin of West Central Alberta, heavy oil in eastern Alberta, oil sands leases in northern Alberta and an interest in a natural gas storage business which complement its legacy shallow gas production and resource base. Additional information on Perpetual, including the most recent filed Annual Information Form ("AIF), can be accessed at www.sedar.com or from the Corporation's website at www.perpetualenergyinc.com.

ADVISORIES

NON-GAAP MEASURES: *This document contains the following non-GAAP financial measures which do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. Non-GAAP measures presented in this document should not be viewed as alternatives to measures of financial performance calculated in accordance with GAAP.*

Operating netback: *Perpetual considers operating netback a key performance measure as it demonstrates its profitability relative to current commodity prices. Operating netbacks are also calculated on a boe basis by deducting royalties, operating costs, and transportation from total revenue.*

Funds flow: *Management uses cash flow from operating activities before changes in non-cash working capital, changes in long term Crown receivable, settlement of decommissioning obligations and certain E&E costs described below ("funds flow"), funds flow per share and annualized funds flow to analyze operating performance and leverage. Funds flow is reconciled to its closest GAAP measure, cash flow from operating activities, as follows.*

Funds flow GAAP reconciliation	*Three months ended December 31*		*Year ended December 31*	
($ thousands, except per share amounts)	***2013***	*2012*	***2013***	*2012*
Cash flow from operating activities	***12,353***	*13,527*	***52,333***	*48,599*
Exploration and evaluation costs [1]	***(19)***	*(241)*	***1,279***	*100*
Expenditures on decommissioning obligations	***859***	*217*	***2,497***	*1,825*
Changes in long term Crown receivable	***777***	*(1,335)*	***2,213***	*(275)*
Changes in non-cash operating working capital	***(972)***	*(1,010)*	***146***	*(1,162)*
Funds flow	***12,998***	*11,158*	***58,468***	*49,087*
Funds flow per share [2]	***0.09***	*0.08*	***0.39***	*0.33*

(1) The Corporation charges exploratory dry hole costs, geological and geophysical costs, lease rentals on undeveloped properties and the cost of expired leases to income or loss in the period incurred. To make reported funds flow in this MD&A more comparable to industry practice the Corporation reclassifies dry hole costs, geological and geophysical costs and expired leases from operating to investing activities in the funds flow reconciliation.
(2) Based on weighted average shares outstanding for the period.

Realized revenue: *Realized revenue includes oil and natural gas revenue, realized gains (losses) on economic hedges and call option premiums received and is used by management to calculate the Corporation's net realized commodity prices taking into account monthly settlements on financial forward sales, collars and foreign exchange contracts. These contracts are put in place to protect Perpetual's funds flows from potential volatility in commodity prices, and as such any related realized gains or losses are considered part of the Corporation's realized price.*

Adjusted working capital surplus: *Adjusted working capital surplus includes total current assets, current liabilities and long term Crown receivables excluding short-term derivative assets and liabilities related to the Corporation's economic hedging activities, assets and liabilities held for sale, share-based payment liabilities and current bank indebtedness.*

Net debt and net bank debt: *Net bank debt is measured as current and long term bank indebtedness including adjusted working capital surplus. Net debt includes the carrying value of net bank debt and the principle amount of senior notes and convertible debentures. Net bank debt and net debt are used by management to analyze leverage.*

Total capitalization: *Total capitalization is equal to net debt plus market value of issued equity and is used by management to analyze leverage. Total capitalization is not intended to represent the total funds from equity and debt received by the Corporation upon issuance.*

VOLUME CONVERSIONS: *Barrel of oil equivalent ("boe") may be misleading, particularly if used in isolation. In accordance with National Instrument 51-101 ("NI 51-101"), a conversion ratio for natural gas of 6 Mcf:1bbl 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 natural gas and crude oil, based on the current prices of natural gas and crude oil, differ significantly from the energy equivalency of 6 Mcf:1 bbl.*

FORWARD-LOOKING INFORMATION: *Certain statements contained in this MD&A constitute forward-looking information and statements within the meaning of applicable securities laws. This information and these statements relate to future events or to future performance. All statements other than statements of historical fact may be forward-looking information and statements. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe", "outlook", "guidance", "objective", "plans", "intends", "targeting", "could", "potential", "outlook", "strategy" and any similar expressions are intended to identify forward-looking information and statements.*

In particular, but without limiting the foregoing, this MD&A contains forward-looking information and statements pertaining to the following: the quantity and recoverability of Perpetual's reserves; the timing and amount of future production; future prices as well as supply and demand for natural gas, natural gas liquids ("NGLs") and oil; the existence, operations and strategy of the commodity price risk management program; the approximate amount of forward sales and economic hedges to be employed, and the value of financial forward natural gas, oil and other risk management contracts; funds flow sensitivities to commodity price, production, foreign exchange and interest rate changes; operating, G&A, and other expenses; the costs and timing of future abandonment and reclamation, asset retirement and environmental obligations; the use of exploration and development activity, prudent asset management, and acquisitions to sustain, replace or add to reserves and production or expand the Corporation's asset base; the Corporation's acquisition and disposition strategy and the existence of acquisition and disposition opportunities, the criteria to be considered in connection therewith and the benefits to be derived therefrom; Perpetual's ability to benefit from the combination of growth opportunities and the ability to grow through the capital markets; expected book value and related tax value of the Corporation's assets and prospect inventory and estimates of net asset value; funds flow; ability to fund exploration and development; the corporate strategy; expectations regarding Perpetual's access to capital to fund its acquisition, exploration and development activities; the effect of future accounting pronouncements and their impact on the Corporation's financial results; expected realization of gas over bitumen ("GOB") royalty adjustments; future income tax and its effect on funds flow; intentions with respect to preservation of tax pools of and taxes payable by the Corporation; funding of and anticipated results from capital expenditure programs; renewal of and borrowing costs associated with the Credit Facility; future debt levels, financial capacity, liquidity and capital resources; future contractual commitments; drilling, completion, facilities, construction and waterflood plans, and the effect thereof; the impact of Canadian federal and provincial governmental regulation on the Corporation relative to other issuers; Crown royalty rates; Perpetual's treatment under governmental regulatory regimes; business strategies and plans of management including future changes in the structure of business operations and debt reduction initiatives; and the reliance on third parties in the industry to develop and expand Perpetual's assets and operations.

The forward-looking information and statements contained in this MD&A reflect several material factors and expectations and assumptions of the Corporation including, without limitation, that Perpetual will conduct its operations in a manner consistent with its expectations and, where applicable, consistent with past practice; the general continuance of current or, where applicable, assumed industry conditions; the continuance of existing, and in certain circumstances, the implementation of proposed tax, royalty and regulatory regimes; the ability of Perpetual to obtain equipment, services, and supplies in a timely manner to carry out its activities; the accuracy of the estimates of Perpetual's reserve and resource volumes; the timely receipt of required regulatory approvals; certain commodity price and other cost assumptions; the timing and costs of storage facility and pipeline construction and expansion and the ability to secure adequate product transportation; the continued availability of adequate debt and/or equity financing and funds flow to fund the Corporation's capital and operating requirements as needed; and the extent of Perpetual's liabilities.

The Corporation believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable but no assurance can be given that these factors, expectations and assumptions will prove to be correct. The forward-looking information and statements included in this MD&A are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation: volatility in market prices for oil and natural gas products; supply and demand regarding Perpetual's products; risks inherent in Perpetual's operations, such as production declines, unexpected results, geological, technical, or drilling and process problems; unanticipated operating events that can reduce production or cause production to be shut-in or delayed; changes in exploration or development plans by Perpetual or by third party operators of Perpetual's properties; reliance on industry partners; uncertainties or inaccuracies associated with estimating reserves volumes; competition for, among other things; capital, acquisitions of reserves, undeveloped lands, skilled personnel, equipment for drilling, completions, facilities and pipeline construction and maintenance; increased costs; incorrect assessments of the value of acquisitions; increased debt levels or debt service requirements; industry conditions including fluctuations in the price of natural gas and related commodities; royalties payable in respect of Perpetual's production; governmental regulation of the oil and gas industry, including environmental regulation; fluctuation in foreign exchange or interest rates; the need to obtain required approvals from regulatory authorities; changes in laws applicable to the Corporation, royalty rates, or other regulatory matters; general economic conditions in Canada, the United States and globally; stock market volatility and market valuations; limited, unfavorable, or a lack of access to capital markets, and certain other risks detailed from time to time in Perpetual's public disclosure documents. The foregoing list of risk factors should not be considered exhaustive.

The forward-looking information and statements contained in this MD&A speak only as of the date of this MD&A, and none of the Corporation or its subsidiaries assumes any obligation to publicly update or revise them to reflect new events or circumstances, unless expressly required to do so by applicable securities laws.

SELECTED ANNUAL INFORMATION

($ thousands, except per share amounts)	2013	2012	2011
Financial			
Oil and natural gas revenue	**201,294**	176,137	246,256
Net income (loss)[1]	**7,620**	(75,986)	(95,893)
Per share[1] [2]	**0.05**	(0.52)	(0.65)
Funds flow	**58,468**	49,087	72,679
Per share[2]	**0.39**	0.33	0.49
Total assets[1]	**742,288**	729,888	1,025,750
Total long term liabilities[1]	**521,847**	594,342	728,180
Dividends to shareholders	**–**	–	28,865
Per share[3]	**–**	–	0.20
Net bank debt outstanding[1]	**67,201**	77,827	132,937
Senior notes, at principal amount	**150,000**	150,000	150,000
Convertible debentures, at principal amount	**159,779**	159,972	234,897
Total net debt[1]	**376,980**	387,799	517,834
Capital expenditures			
Exploration and development[4]	**96,684**	79,724	139,214
Dispositions, net of acquisitions	**(70,840)**	(164,763)	(33,953)
Interest in Warwick Gas Storage (“WGS LP”)	**19,129**	–	–
Other	**120**	271	11,795
Net capital expenditures	**45,093**	(84,768)	117,056
Shares outstanding (thousands)			
End of period	**148,490**	147,455	146,966
Weighted average	**148,144**	147,085	147,694
Operating			
Average production			
Natural gas (MMcf/d)	**88.9**	100.2	130.2
Oil and NGL (bbl/d)	**3,860**	3,448	1,976
Total (boe/d)	**18,696**	20,142	23,671
GOB deemed production (MMcf/d)	**22.7**	26.7	26.4
Average production (actual and deemed – boe/d)	**22,479**	24,592	28,071
Average prices			
Natural gas – before derivatives ($/Mcf)	**3.26**	2.48	3.77
Natural gas – including derivatives ($/Mcf)	**3.53**	3.34	3.82
Oil and NGL – before derivatives ($/bbl)	**67.65**	64.26	73.67
Oil and NGL – including derivatives ($/bbl)	**66.48**	64.13	78.00
Wells drilled			
Natural gas – gross (net)	**6 (3.0)**	8 (5.5)	16 (15.5)
Crude oil – gross (net)	**37 (35.7)**	36 (34.6)	35 (34.0)
Other – gross (net)	–	–	11 (11.0)
Total – gross (net)	**43 (38.7)**	44 (40.1)	62 (60.5)

(1) Prior period amounts have been restated as a result of the GOB obligation being overstated and GOB revenue being understated. See note 2 of the Corporation’s annual audited consolidated financial statements.
(2) Based on weighted average shares outstanding for the year.
(3) Based on shares outstanding at each cash dividend date.
(4) Exploration and development costs include geological and geophysical expenditures.

OVERALL PERFORMANCE

Perpetual focused on five key strategic priorities in 2013:

- Maximize value of Mannville heavy oil;
- Position for growth of Edson liquids-rich gas;
- Manage downside risk and reduce debt;
- Advance and broaden the portfolio of high impact opportunities with risk-managed investment; and
- Prepare to maximize value from shallow gas base assets in gas price recovery.

Perpetual continued to focus its efforts on its asset transformation and commodity diversification strategy with capital spending directed towards Mannville heavy oil assets in eastern Alberta and liquids-rich assets in the Greater Edson area. During 2013, Perpetual drilled 37 (35.7 net) horizontal heavy oil wells in Mannville and 6 (3.0 net) deep basin wells. In addition, the West Edson gas processing facility was expanded to 37 MMcf/d (50 percent working interest) and enhanced with the construction of a refrigeration plant and sales pipeline with deliveries to the Alliance pipeline commencing in the fourth quarter of 2013.

As a result of Perpetual's commodity diversification strategy, daily oil and NGL production of 3,448 bbl/d in 2012 increased 12 percent to 3,860 bbl/d in 2013. Natural gas production declined 11 percent from 100.2 MMcf/d in 2012 to 88.9 MMcf/d in 2013 due to the impact of non-core natural gas asset dispositions in 2012 and natural declines with the concentration of capital spending focused on the development of heavy oil and liquids-rich assets.

Proceeds on dispositions, net of acquisitions, of $70.8 million in 2013 were primarily driven by $76.8 million in net proceeds received from the sale of Perpetual's Elmworth property during the first quarter of 2013. Perpetual spent approximately $8.1 million during 2013 on acquisitions primarily focused on undeveloped land in West Central to capture further exploration and development opportunities. Perpetual exercised its option to repurchase an additional 20 percent interest in WGS LP for $19.1 million in the second quarter of 2013 increasing its total interest from 10 to 30 percent.

The positive impact of Perpetual's capital activities in 2013 was reflected in the addition of 16.4 MMBoe of oil, natural gas and NGL reserves replacing production by close to 2.5 times. Total proved and probable reserves of 62.4 MMBoe were down 17 percent from 75.0 MMBoe in 2012 giving effect to reserve reductions of 6.8 MMBoe in production, 13.1 MMBoe in dispositions and 9.1 MMBoe in negative economic reserve revisions associated with undeveloped probable Viking formation reserves in eastern Alberta. Finding and development costs including changes in future development capital costs of $9.29 per boe reflect strong capital efficiencies in Perpetual's key focus areas of investment. With the highly profitable additions focused in the Corporation's key diversifying strategies, the net present value of Perpetual's reserves, discounted at eight percent, increased close to 25 percent from $545.9 million in 2012 to $677.0 million at year end 2013. A complete discussion of reserves is included in the Corporation's 2013 AIF.

Funds flow increased 19 percent to $58.5 million in 2013 from $49.1 million in 2012 mainly due to increased revenues related to higher oil production and oil prices as well as higher gas prices year over year offsetting gas production declines. Lower operating costs also contributed to the increase in funds flow as did increased dividends from WGS LP as a result of strong performance in the gas storage business and the increase in Perpetual's share of the investment from 10 to 30 percent.

Increased funds flow and proceeds from dispositions more than offset Perpetual's 2013 capital spending which contributed to a reduction of $10.8 million in net debt from $387.8 million in 2012 to $377.0 million in 2013.

2013 FINANCIAL RESULTS

Capital expenditures

($ thousands)	**2013**	2012
Exploration and development	**95,405**	79,624
Geological and geophysical costs[(1)]	**1,279**	100
Interest in WGS LP	**19,129**	–
Acquisitions	**8,135**	2,407
Dispositions	**(78,975)**	(167,170)
Other	**120**	271
Total	**45,093**	(84,768)

(1) Geological and geophysical expenditures and dry hole costs are expensed directly in the Corporation's statement of income (loss); they are considered by Perpetual to be more closely related to investing activities than operating activities, and therefore are included with capital expenditures.

Exploration and development spending by area

($ thousands)	**2013**	2012
West Central liquids-rich gas	**42,360**	24,907
Mannville heavy oil	**49,316**	50,883
Shallow gas and other	**3,729**	3,834
Total	**95,405**	79,624

During 2013, exploration and development expenditures of $95.4 million continued to be focused on the Corporation's proven diversifying growth assets at Mannville for heavy oil and in West Central for liquids-rich gas.

Exploration and development spending in 2013 of $42.4 million related to the development of the Corporation's liquids-rich Wilrich play in the Edson area. Infrastructure spending included the expansion of the compressor station and the installation of a refrigeration plant at the West Edson gas processing facility as well as construction of a sales pipeline to tie-in to the Alliance Canada Pipeline system. The Corporation's development drilling program in West Central Alberta, which was designed to fill the new gas plant in West Edson, included five (2.5 net) liquids-rich gas wells. In addition, one (0.5 net) exploratory well was drilled in the Columbia area and has recently been placed on production to evaluate performance. Exploration and development spending at Mannville of $49.3 million included the completion of a 37 (35.7 net) horizontal heavy oil well drilling program during 2013.

Acquisitions of $8.1 million in 2013 related to undeveloped land acquisitions complementing Perpetual's' land position in West Central Alberta for liquids-rich gas.

Disposition proceeds of $79.0 million in 2013 were primarily related to the disposition of non-producing properties in Elmworth which closed in the first quarter of 2013 for net proceeds of $76.8 million. Dispositions completed during 2012 were the result of Perpetual's asset disposition program targeting $75 to $150 million in net proceeds which was achieved through dispositions of non-core natural gas and oil properties in the West Central and Eastern districts contributing $86.3 million in net proceeds with the remaining net proceeds of $80.9 million being attributable to the disposition of a 90 percent interest in WGS LP.

During the second quarter of 2013, Perpetual exercised its option to repurchase an additional 20 percent interest in WGS LP for $19.1 million increasing its interest from 10 percent to 30 percent.

Production

	2013	2012
Natural gas (MMcf/d)		
Eastern – North	**38.5**	50.1
Eastern – South	**25.2**	29.3
West Central	**25.2**	20.8
Total natural gas	**88.9**	100.2
Crude oil (bbl/d)		
Eastern – North	**7**	5
Eastern – South[1]	**3,150**	2,537
West Central	**48**	116
Total crude oil	**3,205**	2,658
NGL (bbl/d)		
Eastern – North	**–**	1
Eastern – South	**9**	6
West Central	**646**	783
Total NGL	**655**	790
Total actual production (boe/d)	**18,696**	20,142
Deemed natural gas production (MMcf/d)	**22.7**	26.7
Total actual plus deemed production (boe/d)	**22,479**	24,592

(1) Primarily Mannville heavy oil.

Total production of 18,696 boe/d for the year ended December 31, 2013 decreased seven percent from the prior year due to the full year effect of non-core asset dispositions completed in 2012.

Despite a 21 percent increase to Perpetual's West Central deep basin gas production, non-core asset dispositions in 2012 and natural declines in Perpetual's shallow gas assets led to an 11 percent reduction in average gas production to 88.9 MMcf/d from 100.2 MMcf/d recorded in 2012.

Oil production of 3,205 bbl/d increased 21 percent from 2,658 bbl/d in 2012 as a result of the successful drilling program targeting Mannville heavy oil.

NGL production in 2013 decreased by 17 percent from 790 bbl/d to 655 bbl/d as the higher liquids yield wells at Edson declined and spending for liquids-rich gas was focused at West Edson where liquids yields are lower than at Edson proper. In addition, the change in processing arrangements in West Edson, which started up operations in October 1, 2013, reduced the reported liquids recovery as a portion of the previously recovered liquids are now included in higher heat content gas sales while higher grade condensate liquids are now recovered through the new plant.

Deemed production for 2013 of 22.7 MMcf/d decreased 15 percent from 26.7 MMcf/d in 2012. The decrease reflects the annual 10 percent reduction assessed on deemed production volumes combined with wells reaching the end of their 10 year deemed production period. Wells are only eligible for deemed production and the associated GOB royalty adjustment for 10 years following shut-in.

Commodity prices

	2013	2012
Reference prices		
AECO Monthly Index ($/Mcf)	**3.16**	2.40
AECO Daily Index ($/Mcf)	**3.17**	2.39
Alberta Gas Reference Price ($/Mcf)[1]	**2.82**	2.25
West Texas Intermediate ("WTI") light oil ($USD/bbl)	**97.97**	94.20
Western Canadian Select ("WCS") differential ($USD/bbl)	**(25.20)**	(21.03)
Average Perpetual prices		
Natural gas		
Before derivatives ($/Mcf)[2]	**3.26**	2.48
Percent of AECO Monthly Index	**103**	103
Including derivatives ($/Mcf)	**3.53**	3.34
Percent of AECO Monthly Index	**112**	139
Oil and NGL		
Before derivatives ($/bbl)	**67.65**	64.26
Including derivatives ($/bbl)	**66.48**	64.13
Barrel of oil equivalent		
Average realized price ($/boe)	**30.56**	27.59

(1) Alberta Gas Reference Price is the price used to calculate Alberta Crown royalties.
(2) Natural gas price before derivatives includes physical forward sales contracts for which delivery was made during the reporting period but excludes realized gains and losses on financial derivatives.

AECO Monthly Index prices of $3.16/Mcf for the year ended December 31, 2013 increased 32 percent from $2.40/Mcf for the same period in 2012. Colder than normal weather in late February and March of 2013 helped reduce the surplus in U.S. natural gas storage facilities by over 800 Bcf at March 31, 2013 versus March 31, 2012, which contributed to price appreciation through to the end of the second quarter of 2013. Following this increase, NYMEX prices declined due to reduced cooling demand resulting from mild summer weather and gas to coal switching by power producers. New TransCanada mainline pipeline tariffs, effective July 1, 2013 changed the pricing for short term pipeline rates which stranded gas in Alberta and forced storage levels in the province to peak capacity. This in turn caused AECO basis markets to widen, and third quarter AECO Monthly Index prices to decrease. AECO basis narrowed again in the fourth quarter of 2013 with normal seasonal heating demand helping to restore natural gas prices.

Increased AECO index prices were reflected in Perpetual's natural gas price before derivatives with an increase of 31 percent from $2.48/Mcf in 2012 to $3.26/Mcf in 2013.

Perpetual's average realized gas price, including derivatives, increased six percent in 2013 to $3.53/Mcf from $3.34/Mcf in 2012. The Corporation's realized 2012 natural gas price was significantly enhanced by realized gains on natural gas derivatives with close to 75 percent of Perpetual's production being economically hedged above settled market prices during that period. In response to the new pipeline tariffs at the beginning of the third quarter of 2013, Perpetual managed its downside risk by increasing gas hedges. Realized gains of $8.3 million on financial natural gas contracts led to an average 2013 gas price that was 112 percent of the AECO Monthly Index.

Perpetual's oil and NGL price, before derivatives, of $67.65/bbl increased five percent in 2013 compared to 2012. Slightly increased WTI prices were offset by a widening of WTI to the WCS differential price. However, price improvements were realized through the delivery of higher grade oil at the sales points related to drying operations implemented at the majority of the Mannville heavy oil production pads offsetting the reduced Canadian benchmark prices.

Perpetual's realized oil and NGL prices, including derivatives, were impacted by losses recorded on financial WTI fixed price contracts resulting in realized oil and NGL prices that were lower than prices before derivatives for the year ended December 31, 2013. Losses of $2.6 million on financial WTI contracts were partially mitigated by $0.9 million in call option premiums received during the first quarter of 2013.

Risk management

Perpetual's risk management strategy is focused on using both physical and financial derivatives to provide increased certainty in funds flow by mitigating the effect of commodity price volatility, to lock in economics on capital programs and acquisitions, and to take advantage of perceived anomalies in commodity markets. Perpetual also utilizes foreign exchange swaps and physical or financial swaps 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 realized commodity prices.

Natural Gas

Perpetual has in place natural gas hedges on 42 percent of estimated natural gas production and deemed natural gas production for the remainder of 2014. The following tables provide a summary of derivative natural gas contracts in place as at March 5, 2014:

Fixed price natural gas forward sales arrangements (net of related financial fixed-price natural gas purchase contracts) at the AECO trading hub:

Type of contract	Term[(1)]	Volumes at AECO (GJ/d)	Price ($/GJ)[(2)]	Futures market ($/GJ)[(3)]
Financial	April – June 2014	20,825	4.01	4.36
Financial	April – October 2014	26,100	4.02	4.35
Physical	April – October 2014	5,275	4.06	4.35
Financial	April – December 2014	10,000	3.71	4.39
Financial	July – December 2014	22,500	4.25	4.41

(1) Excludes settled and prompt month contracts.
(2) Average price calculated using weighted average price for net open contracts.
(3) Futures market prices are based on closed forward AECO prices as of March 5, 2014.

Sold natural gas call option:

Type of contract	Term	Expiry date	Volumes at AECO (GJ/d)	Strike price ($/GJ)	Futures market ($/GJ)[(1)]
Call	April – December 2014	Monthly 2014	10,000	4.25	4.39

(1) Futures market prices are based on closed forward AECO prices as of March 5, 2014.

Financial forward gas sales arrangements to fix the basis differentials between NYMEX and AECO trading hubs:

Type of contract	Term[(1)]	Volumes at NYMEX-AECO (MMBtu/d)	Price ($/MMBtu)[(2)]	Futures market ($/MMBtu)[(3)]
Financial	April – October 2014	7,500	(0.48)	(0.37)

(1) Excludes settled and prompt month contracts.
(2) Average price is in USD and calculated using weighted average price for net open contracts; the price at which these contracts settle is equal to the NYMEX index less a fixed basis amount.
(3) Futures market prices are based on closed forward NYMEX-AECO differential prices as of March 5, 2014.

Crude Oil

Perpetual has crude oil financial contracts in place for 1,750 bbl/day of crude oil production for the remainder of 2014 with non-triggered WTI call options of 2,000 bbl/day for 2014 and 1,500 bbl/day for 2015. The following tables provide a summary of derivative crude oil contracts in place as at March 5, 2014:

Fixed price oil sales arrangements in $USD

Type of contract	Term[1]	Volumes at WTI (bbl/d)	Price ($/GJ)[2]	Futures market ($/GJ)[3]
Financial	March – June 2014	750	90.00	99.70
Financial	March – December 2014	250	90.00	96.90

(1) Excludes settled contracts.
(2) Average price calculated using weighted average price for net open contracts.
(3) Futures market prices are based on forward WTI oil prices as of March 5, 2014.

Costless collar oil sales arrangements in $USD:

Type of contract	Term[1]	Volumes at WTI (bbl/d)	Floor price ($USD/bbl)[2]	Ceiling price ($USD/bbl)[2]	Futures market ($USD/bbl)[3]
Collar	March – December 2014	500	85.00	91.10	96.90
Collar	March – December 2014	500	85.00	91.20	96.90
Collar[4]	March – December 2014	500	90.00	103.15	96.90

(1) Excludes settled contracts.
(2) Average price calculated using weighted average price for net open contracts.
(3) Futures market prices are based on forward WTI oil prices as of March 5, 2014.
(4) In this collar arrangement Perpetual received a ceiling price above the market price for such collars, and in exchange should the WTI index settle above $USD103.15/bbl in any month during the contract period Perpetual will receive a price of $USD93.00/bbl.

Costless collar oil sales arrangements in $CAD:

Type of contract	Term[1]	Volumes (bbl/d)	Floor price ($CAD/bbl)	Ceiling price ($CAD/bbl)	Futures market ($CAD/bbl)[2]
Collar	January – December 2015	500	87.50	95.25	88.30
Collar	January – December 2015	500	87.50	95.75	88.30

(1) Excludes settled contracts.
(2) Futures market prices are based on forward WTI oil prices as of March 5, 2014.

Basis differential contracts between WTI and WCS trading:

Type of contract	Term[1]	Volumes (bbl/d)	WTI-WCS differential ($USD/bbl)[2]	Futures market ($USD/bbl)[3]
Financial	April – December 2014	2,000	(21.64)	(21.90)

(1) Excludes settled and prompt month contracts.
(2) Average price calculated using weighted average price for net open contracts; the price at which these contracts settle is equal to the WTI index less a fixed basis amount.
(3) Futures market prices are based on forward WTI-WCS differential prices as of March 5, 2014.

Sold oil call options:

Type of contract	Term	Expiry date	Volumes at WTI (bbl/d)	Strike price ($USD/bbl WTI)	Futures market ($USD/bbl WTI)[1]
Call	March – December 2014	Monthly 2014	2,000	105.00	96.90
Call	January – December 2015	Monthly 2015	1,500	100.00	88.30

(1) Futures market prices are based on forward WTI oil prices as of March 5, 2014.

Foreign Exchange

U.S. dollar forward sales arrangements:

Type of contract	Notional $USD/month	Exchange rate ($CAD/$USD)	Term[1]
Financial	1,000,000	1.1000	March 2014 – June 2015

[1] Excludes settled contracts.

The Corporation receives $1,000 each day during the month that the daily exchange rate is between $1.0000 and $1.1000. If the average monthly exchange rate is greater than $1.1000 the Corporation pays USD$1,000,000 multiplied by the difference between the average monthly exchange rate and $1.1000. No settlement occurs between the Corporation and the counterparty if the average monthly exchange rate settles below $1.0000.

Type of contract	Notional floor $USD/month	Notional ceiling $USD/month	Exchange rate floor ($CAD/$USD)	Exchange rate ceiling ($CAD/$USD)	Term
Financial	2,500,000	5,000,000	1.0400	1.1410	July 2014 – December 2015

If the average monthly exchange rate is greater than the exchange rate ceiling, the Corporation pays $USD5,000,000 multiplied by the difference between the average monthly exchange rate and $1.1000. If the monthly average exchange rate settles below the exchange rate floor, the Corporation receives $USD2,500,000 multiplied by the difference between the average monthly exchange rate and the exchange rate floor.

Type of contract	Notional amount $USD/month	Notional ceiling $USD/month	Exchange rate floor ($CAD/$USD)	Exchange rate ceiling ($CAD/$USD)	Term
Financial	1,000,000	2,000,000	1.1000	1.1225	March – June 2014
Financial	1,000,000	2,000,000	1.1000	1.1305	March – June 2014

[1] Excludes settled contracts.

If the average monthly exchange rate is less than the exchange rate floor, the Corporation receives $USD1,000,000 multiplied by the difference between the average monthly exchange rate and the exchange rate floor. If the monthly average exchange rate is between the exchange rate ceiling and exchange rate floor, the Corporation receives $USD1,000,000 multiplied by the difference between the average monthly exchange rate and the exchange rate ceiling. If the average monthly exchange rate is greater than the exchange rate ceiling, the Corporation pays $USD2,000,000 multiplied by the difference between the average monthly exchange rate and the exchange rate ceiling.

Revenue

($ thousands, except as noted)	**2013**	2012
Petroleum and natural gas ("P&NG") revenue		
Natural gas[1]	**105,965**	90,788
Oil and NGL[1]	**95,329**	81,090
Total P&NG revenue	**201,294**	171,878
Other revenue		
Gas storage revenue	**–**	4,259
Unrealized gains (losses) on derivatives	**1,783**	(2,224)
Realized gains on derivatives	**6,275**	29,035
Total other revenue	**8,058**	31,070
Total revenue	**209,352**	202,948
Per boe	**30.68**	27.53

[1] Includes revenues related to physical forward sales contracts which settled during the period.

Perpetual's P&NG revenue, before derivatives, for the year ended December 31, 2013 of $201.3 million increased 17 percent from 2012 due to higher oil and NGL production, a larger proportion of production from oil and NGL, and improved oil and natural gas prices in 2013. Natural gas revenue, before derivatives, of $106.0 million in 2013 increased 17 percent from $90.8 million in 2012 with increased natural gas prices more than offsetting the reduction in natural gas production associated with 2012 property dispositions. Oil and NGL revenues of $95.3 million were $14.2 million higher than the prior year with higher realized prices and increased production as a result of Perpetual's focus on commodity diversification with 2012 and 2013 capital spending programs directed almost exclusively to the development of oil and liquids-rich gas assets.

Realized gains on derivatives in 2013 totaled $6.3 million compared to $29.0 million for the same period in 2012. Gains in 2013 were primarily due to gains on natural gas and foreign exchange contracts which were partially offset by losses on oil contacts. In addition, Perpetual received $0.9 million in 2013 and $2.5 million in 2012 related to call options premiums. In 2012, Perpetual had entered into economic hedging contracts which represented close to 75 percent of actual and deemed natural gas production in order to protect funds flow in anticipation of a very low gas price environment.

The Corporation recorded unrealized gains on derivatives of $1.8 million during 2013 and losses of $2.2 million in 2012, representing the change in mark-to-market value of derivative contracts as forward commodity prices change. Unrealized gains and losses on derivatives are excluded from the Corporation's calculation of funds flow as they are non-cash. Derivative gains and losses vary depending on the nature and extent of economic hedging contracts in place, which in turn, varies with the Corporation's assessment of commodity price risk, committed capital spending and other factors.

Royalties

($ thousands except as noted)	**2013**	2012
Crown	**9,924**	5,562
Freehold and overriding	**9,118**	7,103
Total	**19,042**	12,665
Crown (% of total P&NG sales)	**4.9%**	3.2%
Freehold and overriding (% of total P&NG sales)	**4.5%**	4.1%
Total (% of P&NG sales)	**9.4%**	7.3%
Per boe	**2.79**	1.72

The 2013 combined average royalty rate on P&NG revenues increased to 9.4 percent from 7.3 percent in 2012 as a result of increased Crown royalty rates associated with higher Alberta gas reference prices. In addition, certain of the Corporation's Mannville heavy oil wells transitioned to higher royalty rates after reaching maximum volume recoveries under initial low royalty rate incentive periods. Annual Crown royalty adjustments of $2.6 million recorded in the second quarter of 2013 further contributed to the increase in Crown royalty rates for 2013. These adjustments related to 2012 capital cost allowance, custom processing and operating costs. The Crown adjusts these deductions from a corporate level to a facility level annually in June of each year.

Freehold and overriding royalties averaged 4.5% of total P&NG revenue in 2013, compared to 4.1% in 2012 as a result of increased oil production on freehold lands in the Mannville area which carry a higher freehold royalty rate than the Corporation's production on Crown lands.

Production and operating expenses

($ thousands except as noted)	**2013**	2012
P&NG production expense	**75,414**	79,709
Gas storage operating expense[1]	**–**	2,031
Total	**75,414**	81,740
Per boe	**11.05**	11.09

(1) No longer accounted for on a consolidated basis after April 25, 2012.

P&NG production expense of $75.4 million in 2013 decreased five percent from $79.7 million in 2012, reflecting the impact of Perpetual's cost saving measures applied to the production of its shallow gas assets and the new operating cost structure at West Edson associated with the new plant which started up on October 1, 2013. Cost savings were partially offset by higher operating costs associated with increased heavy oil production. On a boe basis, operating costs increased from $10.81/boe in 2012 to $11.05/boe in 2013. The increase in cost per boe was the result of the growth in heavy oil production combined with high fixed costs, primarily property tax, associated with the Corporation's declining shallow gas assets.

Total production and operating expenses decreased eight percent from $81.7 million in 2012 to $75.4 million in 2013 as no operating expenses were recorded for the gas storage business in 2013 with the change in accounting treatment. The overall reduction of the Corporation's interest beginning April 2012 resulted in the investment being accounted for using the equity method rather than line-by-line consolidation.

Transportation costs

($ thousands except as noted)	**2013**	2012
Transportation costs	**10,163**	8,773
Per boe	**1.49**	1.19

Transportation costs include clean oil trucking and transportation as well as costs to transport natural gas from the plant gate to a commercial sales point. Transportation costs in 2013 increased to $10.2 million from $8.8 million for the same period in 2012 primarily due to increased oil production volumes combined with a change in operating procedure related to Perpetual increasing its onsite processing of oil to meet sales point specifications. This resulted in a change in classification from operating costs (emulsion trucking) to transportation costs (clean oil trucking). This change to onsite processing has enhanced oil marketing opportunities and improved the overall netback for heavy oil production from the Mannville area.

Operating netbacks

	2013	2012
Operating netback ($ thousands)		
Realized revenue[1] [2]	**208,522**	203,359
Royalties	**(19,042)**	(12,665)
Operating costs[1]	**(75,414)**	(79,709)
Transportation	**(10,163)**	(8,773)
Total operating netback	**103,903**	102,212
Boe operating netback ($/boe)		
Realized revenue[1] [2]	**30.56**	27.58
Royalties	**(2.79)**	(1.72)
Operating costs[1]	**(11.05)**	(10.81)
Transportation	**(1.49)**	(1.19)
Boe operating netback	**15.23**	13.86

(1) Prior period excludes amounts related to the operation of the gas storage business as revenue and expenses were no longer accounted for on a consolidated basis after April 25, 2012.
(2) See "Non-GAAP measures" in this MD&A.

Perpetual's operating netback of $15.23/boe ($103.9 million) in 2013 increased 10 percent from $13.86/boe ($102.2 million) in 2012, primarily reflecting the increased percentage of higher netback production from crude oil, as well as natural gas and NGL's in the Greater Edson area. Increased oil production as a percentage of the production mix, higher realized oil prices and lower operating expenses were partially offset by increased royalties and transportation expenses.

GOB revenue

($ thousands except as noted)	**2013**	2012
GOB revenue[1]	**8,905**	6,768
Per boe	**1.30**	0.92

[1] Prior period amounts have been restated as a result of the GOB obligation being overstated and GOB revenue being understated. See note 2 of the Corporation's annual audited consolidated financial statements.

Perpetual receives GOB royalty adjustments from Alberta Energy as compensation for its ownership in wells that have been shut-in or denied the right to produce as a result of bitumen conservation decisions. The monthly royalty adjustments are based on the Corporation's net deemed production, which is calculated on a well by well basis and declines by 10 percent per year over a 10 year period. GOB royalty adjustments are recognized as revenue.

Perpetual recorded $8.9 million in GOB revenue in 2013 compared to $6.8 million in 2012. The increase was primarily as a result of higher Alberta reference prices which more than offset the annual 10 percent deemed production decline.

Collection of GOB royalty adjustments was limited by the Alberta government to deductions from the Corporation's monthly natural gas royalty invoices. Beginning in 2014, royalty adjustments are now collected on behalf of Perpetual by one of its partners in the GOB wells with Perpetual's share being received in cash on a monthly basis. As of December 31, 2013, the Corporation had accumulated $18.1 million (December 31, 2012 – $17.7 million) of GOB adjustments receivable from the Crown of which $11.0 million (December 31, 2012 – $8.8 million) has been classified as long term. Perpetual will recover this receivable by applying future gas Crown royalties against the accumulated receivable.

Perpetual has recorded a GOB provision at December 31, 2013 of $2.9 million (December 31, 2012 - $2.7 million), which is adjusted to its fair value each reporting period. The provision represents estimated royalty adjustments that are repayable to the Crown in the future as an overriding royalty on gas production from wells which resume production within the GOB area.

GOB restatement

During preparation of the consolidated financial statements for the year ended December 31, 2013, Perpetual determined that the GOB obligation as at December 31, 2012 and January 1, 2012 was overstated based on the present value of expected repayments of royalty adjustments received.

Previously, Perpetual recognized the undiscounted amount of all royalty adjustments received as gas over bitumen obligation. No GOB revenue was recognized for the royalty adjustments received unless it related to shut-in wells that had been sold, where entitlement to the royalty adjustments were retained but the obligation for repayment had been transferred to the purchaser. By recording the GOB obligation at the undiscounted amount of royalty adjustments received for retained shut-in wells, Perpetual understated GOB revenue in prior periods and the gas over bitumen obligation was overstated.

The effect of the restatement on the consolidated statement of financial position as at January 1 and December 31, 2012 is as follows:

	January 1, 2012			December 31, 2012		
	As reported	Adjustments	Restated	As reported	Adjustments	Restated
Long-term Crown receivable[1]	-	9,059	9,059	-	8,784	8,784
GOB Obligation	74,705	(71,349)	3,356	44,553	(41,816)	2,737
Deficit[2]	(1,206,506)	80,408	(1,126,098)	(1,252,684)	50,600	(1,202,084)

[1] Long-term Crown receivable consists primarily of gas Crown royalty adjustments expected to be received by way of reduced gas Crown royalties beyond one year from the reporting date.

[2] Opening deficit reflects the accumulated impact of understated gas over bitumen revenue for prior periods.

For the year ended December 31, 2012, Perpetual previously recognized $37.2 million as GOB revenue which included a $33.1 million reduction to the GOB obligation related to sold wells. Upon restatement, this amount is included as an adjustment to the opening deficit on January 1, 2012.

The effect of the restatement on the consolidated statement of income (loss) and comprehensive income (loss) for the year ended December 31, 2012 is as follows:

	Year ended December 31, 2012		
($ thousands)	As reported	Adjustments	Restated
GOB revenue	37,195	(30,427)	6,768
Finance expense	(34,579)	619	(33,960)
Net loss	(46,178)	(29,808)	(75,986)
Net loss per share – basic and diluted	(0.31)	(0.21)	(0.52)

The effect of the change in accounting is immaterial to the interim financial statements for all quarters in 2012 or 2013 except for the third quarter of 2012. For the third quarter of 2012, GOB revenue was overstated by $28.0 million and net loss was understated by $28.0 million ($0.18 per share – basic and diluted).

Exploration and evaluation

($ thousands)	**2013**	2012
Lease rentals	**3,269**	3,424
Geological and geophysical costs[1]	**1,279**	100
Lease expiries	**2,715**	5,758
Total exploration and evaluation	**7,263**	9,282

[1] Geological and geophysical expenditures and dry hole costs are expensed directly in the Corporation's statement of income (loss); they are considered by Perpetual to be more closely related to investing activities than operating activities, and therefore are included with capital expenditures.

Exploration and evaluation ("E&E") costs include lease rentals on undeveloped acreage, geological and geophysical costs and lease expiries. E&E costs of $7.3 million in 2013 were $2.0 million lower than the prior year as a result of fewer lease expiries, partially offset by additional seismic purchases.

General and administrative ("G&A") expenses

($ thousands except as noted)	**2013**	2012
Cash G&A expense	**24,509**	27,124
Compensation expense (non-cash)	**3,974**	4,349
Total G&A Expense	**28,483**	31,473
Cash G&A expense – per boe	**3.59**	3.68
Compensation expense (non-cash) ($/boe)	**0.58**	0.59

G&A expenses decreased 10 percent from $31.5 million in 2012 to $28.5 million in 2013. Cash G&A expense decreased from $27.1 million in 2012 to $24.5 million in 2013 due to increased overhead recovery rates under new joint operating agreements combined with an increase in capital spending. Further reductions were attributable to reduced staffing levels and lower consulting fees. Decreased compensation expense was related to a reduction in share based awards granted in 2013 compared to 2012 attributable to reduced staffing levels.

Gains on dispositions

Property dispositions during 2013 generated net cash proceeds of $79.0 million, resulting in gains on dispositions of $52.1 million primarily related to the Elmworth property disposition completed in the first quarter of 2013. The Elmworth property had no production or funds flow from operations and therefore the disposition did not have a negative effect on Perpetual's 2013 production or funds flow. Proceeds from dispositions were applied to reduce outstanding bank debt as well as to fund capital expenditures in excess of funds flow, including the purchase of an additional 20 percent interest in WGS LP.

Impairment

At December 31, 2013, indicators of potential impairment reversals were identified resulting in reversal of a previous years' impairment charge of $5.2 million on assets geographically located within the West Central Cash Generating Unit ("CGU"). Impairments were reversed primarily due to positive reserve revisions related to the strong performance of Perpetual's wells in West Edson.

At December 31, 2012, indicators of potential impairment were identified and Perpetual measured the carrying values of each of its CGUs, less the corresponding decommissioning obligations, against the estimated value in use. An impairment loss of $54.3 million was recorded for 2012 as a result of this analysis. The impairment was recorded within the Birchwavy East, Birchwavy West and Other South CGUs. The impairment was primarily due to lower natural gas prices causing negative reserve revisions on the Corporation's primarily undeveloped Viking reserves located within the Birchwavy East and Birchwavy West CGUs.

Depletion and depreciation ("D&D")

($ thousands except as noted)	**2013**	2012
Depletion and depreciation	**92,877**	105,667
Per boe	**13.61**	14.33

Perpetual recorded $92.9 million of depletion and depreciation expense in 2013. On a boe basis, 2013 D&D expense of $13.61/boe decreased five percent from $14.33/boe in 2012. This reduction reflects a lower depletable cost base due to impairment losses recorded at December 31, 2012 driven by natural gas reserve reductions and associated future development costs as well as an overall decrease in production.

Finance expenses

Interest

($ thousands)	**2013**	2012
Interest	**28,932**	32,483
Amortization of debt issue costs	**3,550**	3,871
Interest	**32,482**	36,354

Interest expense decreased 11 percent from $36.4 million during 2012 to $32.5 million during 2013, primarily due to the repayment of $74.9 million convertible debentures which matured in June 2012 with further decreases associated with lower bank debt as a result of property dispositions. Interest expense for 2013 included interest on the Corporation's senior notes of $13.7 million (2012 - $13.7 million), interest on convertible debentures of $14.4 million (2012 - $17.2 million) and interest on bank debt of $4.4 million (2012 - $5.5 million).

Other finance expenses

($ thousands)	**2013**	2012
Accretion on decommissioning obligations	**4,439**	4,813
Change in estimate on GOB provision[1]	**211**	(619)
Loss (gain) on marketable securities	**92**	(801)
Loss (gain) on call option	**1,274**	(47)
Gain on retained investment in former subsidiary	**–**	(2,104)
Gain on gas storage obligation derivative	**–**	(3,636)
Other finance expenses	**6,016**	(2,394)

[1] Prior period amounts have been restated as a result of the GOB obligation being overstated and GOB revenue being understated. See note 2 of the Corporation's annual audited consolidated financial statements.

Other finance expenses for 2013 included accretion on decommissioning obligations of $4.4 million (2012 - $4.8 million) and a loss of $1.3 million (2012 - $47,000) related to the expiry and partial exercise of Perpetual's option to repurchase up to a 30 percent interest in WGS LP. A loss of $0.1 million was also realized on marketable securities sold during the fourth quarter of 2013 (2012 – gain of $0.8 million) related to the sale of TriOil shares for cash proceeds of $1.9 million.

Funds flow

	2013		2012	
	($thousands)	***($/boe)***	*($thousands)*	*($/boe)*
Realized revenue[1]	**208,522**	**30.56**	203,359	27.58
Royalties	**(19,042)**	**(2.79)**	(12,665)	(1.72)
Operating expenses	**(75,414)**	**(11.05)**	(79,709)	(10.81)
Transportation costs	**(10,163)**	**(1.49)**	(8,773)	(1.19)
Operating netback[1]	**103,903**	**15.23**	102,212	13.86
GOB revenue[2]	**8,905**	**1.30**	6,768	0.92
Exploration and evaluation[3]	**(3,269)**	**(0.48)**	(3,424)	(0.46)
Cash G&A	**(24,509)**	**(3.59)**	(27,124)	(3.68)
Interest[3]	**(28,932)**	**(4.24)**	(32,483)	(4.41)
Dividends from WGS LP	**2,370**	**0.35**	910	0.12
Gas storage operating netback[4]	**–**	**–**	2,228	0.30
Funds flow[1]	**58,468**	**8.57**	49,087	6.65

(1) See "Non-GAAP measures" in this MD&A.
(2) Prior period amounts have been restated as a result of the GOB obligation being overstated and GOB revenue being understated. See note 2 of the Corporation's annual audited consolidated financial statements.
(3) Excludes non-cash items.
(4) 2012 gas storage operating netback includes gas storage revenue net of operating expenses. Revenue and expenses related to the operation of the gas storage business were no longer accounted for on a consolidated basis after April 25, 2012.

Funds flow increased 19 percent to $58.5 million ($0.39 per share) for the year ended December 31, 2013 as compared to $49.1 million ($0.33 per share) for the same period in 2012 reflecting the increase in the operating netback, GOB royalty adjustments and dividends from WGS LP combined with a reduction in G&A and interest expense in 2013.

Net income (loss)

	2013		2012	
	($thousands)	***($/boe)***	*($thousands)*	*($/boe)*
Funds flow[1]	**58,468**	**8.57**	49,087	6.65
Unrealized gains (losses) on derivatives	**1,783**	**0.26**	(2,224)	(0.30)
Call option premiums received	**(953)**	**(0.14)**	(2,446)	(0.33)
Exploration and evaluation[3]	**(3,994)**	**(0.59)**	(5,858)	(0.79)
Compensation expense, non-cash	**(3,974)**	**(0.58)**	(4,349)	(0.59)
Gain on dispositions	**52,143**	**7.64**	48,990	6.65
Impairment reversal (write-down)	**5,171**	**0.76**	(54,313)	(7.37)
Depletion and depreciation	**(92,877)**	**(13.61)**	(105,667)	(14.33)
Financial items, non-cash[2]	**(9,566)**	**(1.40)**	(1,477)	(0.20)
WGS LP net income (loss) and dividends	**1,419**	**0.21**	(1,482)	(0.20)
Deferred income tax benefit	**–**	**–**	3,753	0.51
Net income (loss)	**7,620**	**1.12**	(75,986)	(10.30)

(1) See "Non-GAAP measures" in this MD&A.
(2) Prior period amounts have been restated as a result of the GOB obligation being overstated and GOB revenue being understated. See note 2 of the Corporation's annual audited consolidated financial statements.
(3) Includes non-cash exploration and evaluation expense from expired leases and geological and geophysical costs.

The Corporation recorded net income of $7.6 million ($1.12 per boe) for the year ended December 31, 2013 compared to a net loss of $76.0 million ($10.30 per boe) for the prior year.

SUMMARY OF QUARTERLY RESULTS

($ thousands except where noted)	**Q4 2013**	Q3 2013	Q2 2013	Q1 2013
Financial				
Oil and natural gas revenues	**49,075**	52,555	57,187	42,477
Funds flow[(1)]	**12,998**	18,650	17,286	9,534
Per share - basic	**0.09**	0.13	0.12	0.06
Net income (loss)[(2)]	**(13,745)**	(6,833)	(4,566)	32,764
Per share – basic[(2)]	**(0.09)**	(0.05)	(0.03)	0.22
– diluted[(2)]	**(0.09)**	(0.05)	(0.03)	0.21
Capital expenditures				
Exploration and development	**24,518**	22,350	10,360	39,456
Acquisitions	**418**	532	5,433	1,752
Dispositions	**(901)**	(60)	(84)	(77,930)
Interest in WGS LP	**–**	–	19,129	–
Other	**2**	34	33	51
Net capital expenditures	**24,037**	22,856	34,871	(36,671)
Operating				
Daily average production				
Natural gas (MMcf/d)	**90.3**	85.3	91.9	88.6
Oil and NGL (boe/d)	**3,509**	4,064	4,384	3,483
Total (boe/d)	**18,559**	18,274	19,708	18,244
Average prices				
Natural gas – before derivatives ($/Mcf)	**3.37**	2.79	3.68	3.18
Natural gas – including derivatives ($/Mcf)	**3.62**	3.31	3.90	3.28
Oil and NGL – before derivatives ($/bbl)	**65.35**	82.03	66.18	54.74
Oil and NGL – including derivatives ($/bbl)	**65.88**	76.86	64.84	56.82

($ thousands except where noted)	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Financial				
Oil and natural gas revenues	44,468	40,028	40,444	51,197
Funds flow[(1)]	11,158	10,760	12,668	14,501
Per share – basic	0.08	0.07	0.09	0.10
Net income (loss)[(2)]	(56,400)	(34,117)	26,511	(11,980)
Per share – basic[(2)]	(0.38)	(0.22)	0.18	(0.08)
– diluted[(2)]	(0.38)	(0.22)	0.17	(0.08)
Capital expenditures				
Exploration and development	21,185	17,922	9,606	31,011
Acquisitions	–	1,709	–	698
Dispositions	(6,923)	(16,207)	(80,650)	(63,390)
Other	23	44	14	190
Net capital expenditures	14,285	3,468	(71,030)	(31,491)
Operating				
Daily average production				
Natural gas (MMcf/d)	88.3	93.7	105.1	113.7
Oil and NGL (boe/d)	3,536	3,336	3,446	3,474
Total (boe/d)	18,250	18,955	20,962	22,428
Average prices				
Natural gas – before derivatives ($/Mcf)	2.99	2.36	2.12	2.50
Natural gas – including derivatives ($/Mcf)	3.56	3.44	3.28	3.13
Oil and NGL – before derivatives ($/bbl)	62.02	64.24	61.10	69.70
Oil and NGL – including derivatives ($/bbl)	71.29	59.63	58.58	66.60

(1) See “Non-GAAP measures” in this MD&A.

(2) Prior period amounts have been restated as a result of the GOB obligation being overstated and GOB revenue being understated. See note 2 of the Corporation’s annual audited consolidated financial statements.

Oil and natural gas revenues are a function of production levels and oil and natural gas prices. Revenues were lowest in the third quarter of 2012 due to low AECO Monthly Index prices combined with reduced natural gas production compared to previous quarters as well as slightly lower oil prices. In addition, beginning on April 25, 2012, no WGS LP revenue was consolidated within oil and natural gas revenues due to the Corporation's investment in WGS LP being accounted for as an equity-method investment. Revenues increased considerably during the second and third quarters of 2013 with increased oil and NGL production and higher commodity prices. Oil production declines from the third quarter to the fourth quarter of 2013 related to capital being redirected to Edson facilities until late 2013 when drilling in Mannville recommenced with a one rig winter program.

Perpetual uses derivatives to mitigate the effect of volatility in oil and natural gas prices on funds flows. In addition, Perpetual has been successfully executing an asset base transformation and commodity diversification strategy to enhance the corporate production base with higher-priced oil and NGL volumes. The impact of non-core asset dispositions and application of cost saving initiatives have resulted in a lower cost structure moving from 2012 through 2013. Funds flows will trend with Perpetual's production mix, realized commodity prices and changes in production levels. Consistent with revenues, funds flows were highest in the third quarter of 2013 and lowest in the first quarter of 2013.

Net income (loss) is a function of funds flows and non-cash charges such as depletion, impairment losses, gains and losses on asset dispositions and unrealized gains (losses) on derivatives. Due to the volatility of natural gas prices and the Corporation's risk management position, net income (loss) also fluctuate with changes in forward commodity prices as of each balance sheet date. Perpetual has incurred net losses in most quarters presented as a result of persistently low natural gas prices during the two-year period. The largest net loss was in the fourth quarter of 2012, due in part to an impairment charge of $54.3 million resulting from reserve reductions at year end due to low natural gas prices. The Corporation reported net income of $32.8 million in the first quarter of 2013 as a result of a gain on the disposition of Elmworth and $26.5 million in the second quarter of 2012 as a result of a $40.6 million gain on sale of 90 percent of WGS LP.

FOURTH QUARTER FINANCIAL AND OPERATING RESULTS

The Corporation continued its focus on liquids-rich natural gas at Edson and Mannville heavy oil during the fourth quarter of 2013 with four (2.0 net) horizontal wells drilled at West Edson and five (5.0 net) horizontal wells drilled in Mannville. Two (1.0 net) of the West Edson liquids-rich gas wells and one (1.0 net) of the Mannville heavy oil wells came on production late in December 2013. The remainder of these new wells started production after completion and tie in operations were finished in late January 2014. In addition, a waterflood pilot project at Mannville was successfully started up during the fourth quarter of 2013. Total capital expenditures of $24.5 million were spent on fourth quarter capital projects.

Perpetual's fourth quarter 2013 total production of 18,559 boe/d was marginally higher than the comparative fourth quarter of 2012 (18,250 boe/d) with new production from a successful 2013 drilling program more than offsetting natural declines. Deemed production decreased 23 percent reflecting the annual decline of 10 percent as well as the termination of compensation for certain wells reaching their 10 year maximum period.

Revenue declined slightly during the fourth quarter of 2013 compared to the same period in 2012 due to decreased realized economic hedging gains which were partially offset by increased prices on natural gas and increased oil and NGL production. Slight decreases in revenue were offset by lower operating expenses, which together with dividends received from Perpetual's 30 percent interest in WGS LP, resulted in $13.0 million in funds flow for the fourth quarter of 2013, up 16 percent from the fourth quarter of 2012. A net loss of $13.7 million ($0.09 per share) was recorded for the fourth quarter of 2013.

LIQUIDITY, CAPITALIZATION AND FINANCIAL RESOURCES

($ thousands except as noted)	2013	2012
Bank debt	**70,618**	77,974
Senior notes, measured at principal amount	**150,000**	150,000
Convertible debentures, measured at principal amount	**159,779**	159,972
Adjusted working capital surplus[1]	**(3,417)**	(147)
Net debt	**376,980**	387,799
Shares outstanding at end of period (thousands)	**148,490**	147,455
Market price at end of period	**1.11**	1.15
Market value of shares	**164,824**	169,573
Total capitalization[1]	**541,804**	557,372
Net debt as a percentage of total capitalization	**69.6**	69.6
Funds flow[1]	**58,468**	49,087
Net debt to funds flow ratio (times)[2]	**6.4**	7.9

[1] See "Non-GAAP measures" in this MD&A.
[2] Net debt to funds flow is calculated based on trailing funds flow for the most recent four quarters.

The Corporation's 7.25 percent convertible debentures (7.25% Debentures) and 7.0 percent convertible debentures (7.0% Debentures) mature on January 31, 2015 and December 31, 2015 respectively. While the Corporation has the option to settle all or a portion of the outstanding 7.25% Debentures and 7.00% Debentures through the issuance of shares by giving notice of such intent to debenture holders not more than 60 and not less than 30 days prior to the maturity date, it is the intention of the Corporation to settle in cash. The banks for the Corporation's revolving credit facility are awaiting more certainty on the Corporation's plans to settle the debenture prior to extending the revolving credit facility which, if not renewed, comes due in October 31, 2014. The Corporation will apply to have the facility renewed prior to the next semi-annual review on April 30, 2014. In advance of the facility coming due, management plans include pursing alternative financing arrangements on the facility based on the Corporation's increased year over year externally evaluated reserve values.

Management is pursuing repayment options for the 7.25% Debentures and 7.00% Debentures including asset dispositions, refinancing, or a combination thereof. There is no assurance that the Corporation will be able raise additional capital to settle all or a portion of the outstanding 7.25% Debentures and 7.00% Debentures in cash, in which case, the Corporation would have the option to settle all or a portion of the debentures through the issuance of shares.

Bank debt and working capital

The Corporation targets to maintain a strong capital base so as to retain investor, creditor and market confidence and to sustain the future development of the business. The Corporation manages its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of its underlying oil and natural gas assets. The Corporation considers its capital structure to include share capital, bank debt, senior notes, convertible debentures and adjusted working capital. In order to maintain or adjust the capital structure, the Corporation may from time to time issue shares or debt securities and adjust its capital spending to manage current and projected debt levels.

The Corporation monitors capital based on the ratio of net debt to trailing twelve months funds flow. As at December 31, 2013, the Corporation's ratio of net debt to funds flow decreased 19 percent to 6.4 to 1 (December 31, 2012 – 7.9 to 1). This ratio is monitored continuously by the Corporation and the targeted range of net debt to funds flow varies based on such factors as acquisitions or dispositions, commodity prices, forecasts of future commodity prices, price management contracts, projected cash flows, dividends, capital expenditure programs and timing of such programs. As a part of the management of this ratio, the Corporation prepares annual capital expenditure budgets, which are updated as necessary depending on varying factors including current and forecast prices, successful capital deployment and general industry conditions. Capital spending budgets are approved by the Board of Directors.

At December 31, 2013, Perpetual had $70.6 million outstanding on its credit facility, down $7.4 million from December 31, 2012 ($78.0 million), as proceeds from property dispositions, net of acquisitions, of $70.8 million were applied against outstanding bank debt in 2013. Capital expenditures of $96.7 million and the $19.1 million purchase of an additional 20 percent interest in WGS LP were funded by funds flow of $58.5 million with the balance funded through net property disposition proceeds.

Perpetual's adjusted working capital surplus at December 31, 2013 was $3.4 million compared to a surplus of $0.1 million at December 31, 2012. The Corporation has an adjusted working capital surplus primarily due to Crown receivables from GOB royalty adjustments. Working capital deficiencies will be funded from future sales revenues and by additional credit facility borrowings as required.

The Corporation's credit facility is with a syndicate of Canadian chartered banks. On April 26, 2013, the Corporation's lenders completed their semi-annual review of the borrowing base under the credit facility. The total availability under the credit facility was reduced to $110 million on July 31, 2013, including a demand loan of $95 million and a working capital facility of $15 million. The reduction from the previous borrowing base of $125.0 million was due to dispositions and lower natural gas price forecasts used in lender evaluations, offset by increased lending values attributable to higher oil and NGL reserves.

On October 31, 2013, the Corporation's lenders completed their semi-annual review of the borrowing base under the credit facility. The total availability under the credit facility remains at $110 million which includes a demand loan of $95 million and a working capital facility of $15 million. The revolving nature of the credit facility has been extended to October 30, 2014. The next semi-annual redetermination of the Corporation's borrowing base will occur on or before April 30, 2014.

At current interest rates and applicable margins, the effective interest rate on the Corporation's bank debt is approximately 5.5 percent. Collateral for the credit facility is provided by a floating-charge debenture covering all existing and acquired property of the Corporation as well as unconditional full liability guarantees from all subsidiaries in respect of amounts borrowed under the facility.

Reconciliation of net debt ($ millions)	
Net debt, December 31, 2012[(1)(2)]	387.8
Capital expenditures[(3)]	96.8
Dispositions, net of acquisitions	(70.8)
Funds flow[(2)]	(58.5)
Purchase of interest in WGS LP	19.1
Loss on marketable securities	0.1
Expenditures on decommissioning obligations	2.5
Net debt, December 31, 2013[(2)]	**377.0**

(1) Prior period amounts have been restated as a result of the GOB obligation being overstated and GOB revenue being understated. See note 2 of the Corporation's annual audited consolidated financial statements.
(2) See "Non-GAAP measures" in this MD&A.
(3) Capital expenditures consist of exploration and development and other.

Senior notes

At December 31 2013, Perpetual had $150 million of senior notes outstanding which mature on March 15, 2018 and bear interest at 8.75 percent, payable semi-annually. The senior notes are direct senior unsecured obligations of Perpetual ranking *pari passu* with all other present and future unsecured and unsubordinated indebtedness of the Corporation. The senior notes are carried on the statement of financial position at the par value less unamortized debt issue costs. The fair value of the senior notes at March 5, 2014 was $150.4 million.

As part of the senior notes indenture and the credit facility, the Corporation has covenants that require the ratios of consolidated debt and consolidated senior debt to 12 month trailing income before interest, taxes and depletion and depreciation to be less than 4 to 1 and 3 to 1, respectively. Consolidated debt is defined as the sum of the balance on the credit facility, senior notes and outstanding letters of credit. Consolidated senior debt is defined as consolidated debt less the senior notes. Perpetual was in compliance with these covenants at December 31, 2013. The senior notes indenture also contains restrictions on certain payments including dividends, retirement of subordinated debt and stock repurchases. Allowable payments are increased by 50 percent of cash flow from operating activities and reduced by restricted payments.

Convertible debentures

At December 31, 2013, the Corporation has outstanding 7.25% Debentures that mature on January 31, 2015 as well as 7.0% Debentures that mature on December 31, 2015. In June 2013, Perpetual initiated a Normal Course Issuer Bid to purchase a portion of the outstanding convertible debentures for cancellation subject to Toronto Stock Exchange restrictions. At the end of the second quarter and beginning of the third quarter of 2013, the Corporation purchased and cancelled 71,000 7.25% Debentures and 122,000 7.0% Debentures for a total cash outlay of $0.2 million. All series of convertible debentures are repayable on the maturity date in cash or in shares, at the option of Perpetual. Additional information on convertible debentures is as follows:

Convertible debentures	7.25%	7.00%
Principal issued ($ millions)	100.0	60.0
Principal outstanding ($ millions)	99.9	59.9
Trading symbol on the Toronto Stock Exchange	PMT.DB.D	PMT.DB.E
Maturity date	January 31, 2015	December 31, 2015
Conversion price ($ per share)	7.50	7.00
Fair market value ($ millions)[1]	99.1	59.0

[1] Fair values of debentures are calculated by multiplying the number of debentures outstanding at March 5, 2014 by the quoted market price per debenture at that date.

Equity

Perpetual's total capitalization was $541.8 million at December 31, 2013. Net debt to total capitalization remained at 70 percent at December 31, 2013 as compared to December 31, 2012. Decreased market value of Perpetual's shares offset reductions made to net debt during 2013. Reductions to net debt were achieved with proceeds from the disposition of Elmworth and funds flow generated from operations which were partially offset by capital expenditures and acquisitions.

Weighted average shares outstanding for the year ended December 31, 2013 totaled 148.1 million (2012 – 147.1 million). On March 5, 2014 there were 148.5 million shares outstanding.

2014 OUTLOOK

Perpetual's strategic priorities for 2014 are as follows:

- Reduce debt and manage downside risks
- Grow Edson liquids-rich gas production, reserves, cash flow, inventory and value;
- Maximize value of Mannville heavy oil
- Maximize cash flow from shallow gas; and
- Advance and broaden portfolio of high impact opportunities with risk-managed investment

Perpetual continues to target capital spending in 2014 to be fully funded by 2014 funds flow. The Corporation's Board of Directors has approved a $70 to $80 million capital budget for full calendar year 2014. First quarter spending is on track to be approximately $35 million. The table below summarizes planned drilling activities in accordance with Perpetual's 2014 strategic priorities.

($ millions, except as noted)	Q1	# Wells	Q2 – Q4	# Wells
West Central liquids-rich gas	18	3 (2.0 net)	21 – 26	up to 7 (3.5 net)
Mannville heavy oil	13	11 (9.7 net)	11 – 14	up to 12 (8.3 net)
Shallow gas	4	–	3 - 5	–
Total	35	14 (11.7 net)	35 - 45	19 (11.8 net)

In addition to drilling activities, Perpetual plans to allocate a portion of its 2014 budget to install additional plant and compression equipment at its West Edson facility in order to increase plant capacity to accommodate expected incremental production associated with the West Central drilling program. The capital budget also includes activities focused on maximizing value and mitigating production declines on the Corporation's legacy shallow gas assets through facility optimization projects, workovers and uphole recompletions.

Perpetual estimates that 2014 funds flow will total $80 to $90 million based on current forward commodity prices with oil and liquids production averaging close to 3,400 – 3,500 bbl/d and natural gas sales averaging approximately 90 to 95 MMcf/d. The enhanced heat content of Perpetual's liquids-rich gas in West Central Alberta results in premium pricing to AECO market prices.

Sensitivities

Below is a table that shows sensitivities of Perpetual's 2014 forecasted funds flow to operational changes and changes in the business environment:

($ millions, except as noted)[1]	**Change in remainder of 2014 (March to December)**	**Estimated impact on 2014 funds flow**
Business Environment		
Natural gas price at AECO[2]	$0.25/Mcf	2.5
Oil price at WTI[2] [3]	$USD5.00/bbl	0.7
WTI – WCS differential[2]	$USD5.00/bbl	3.0
Interest rate on bank debt	1%	(0.7)
Operational		
Natural gas production	5 MMcf/d	6.2
Oil and NGL production	100 bbl/d	1.9
Operating expenses	$0.50/boe	(3.0)

(1) Base funds flow estimate assumes average March through December forward market prices of WTI $USD97.63/bbl; WTI-WCS differential $USD22.43/bbl; and AECO $4.68/GJ.
(2) Giving effect to commodity price risk management contracts in place at March 5, 2014.
(3) Reflects positive change in price; a USD$5.00 decrease in WTI would result in a decrease of $1.8 million in funds flow.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

At December 31, 2013, Perpetual has operating lease commitments under office lease costs and related sublease recoveries through to March 31, 2018. Perpetual also has long-term commitments to pay for gas transportation on certain major pipeline systems in western Canada. As of December 31, 2013, the future minimum payments under these commitments consisted of:

($ thousands)	**Pipeline commitments**	**Operating lease commitments**
2014	4,599	1,743
2015	1,682	1,678
2016	94	1,661
2017	34	1,598
2018	24	399
Total	**6,433**	**7,079**

OFF BALANCE SHEET ARRANGEMENTS

Perpetual has no off balance sheet arrangements.

CORPORATE GOVERNANCE

The Corporation is committed to maintaining high standards of corporate governance. Each regulatory body, including the Toronto Stock Exchange and the Canadian provincial securities commissions, has a different set of rules pertaining to corporate governance. The Corporation fully conforms to the rules of the governing bodies under which it operates.

RISK FACTORS

The business risks the Corporation is exposed to are those 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;
- competition, and;
- changes to government regulations including shut in of GOB assets.

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;
- operating properties in order to maximize opportunities;
- employing risk management instruments and policies to minimize exposure to volatility of commodity prices, interest rates and foreign exchange rates
- maintaining a strong financial position
- maintaining strict environment, safety and health practices.

A complete discussion of risk factors is included in the Corporation's 2013 AIF located at www.sedar.com.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Perpetual's Chief Executive Officer ("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.

DC&P

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 filed or submitted by Perpetual under securities legislation.

Perpetual's CEO and CFO have concluded, based on their evaluation at December 31, 2013, that DC&P are effective to provide reasonable assurance that material information related to the issuer is made known to them by others within the Corporation, as such information is recorded, processed, summarized and reported in the reports we file or send to securities regulatory authorities within the time periods specified under Canadian securities laws.

Management's annual report on ICOFR

Management is responsible for establishing and maintaining adequate internal control over financial reporting, 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 GAAP.

Under the supervision and with the participation of management, including the CEO and CFO, an evaluation of the effectiveness of the internal control over financial reporting was conducted as of December 31, 2013 based on criteria described in "Internal Control – Integrated Framework" issued in 1992 by the Committee of Sponsoring Organization of the Treadway Commission. Based on this assessment, management determined that, as of December 31, 2013, the internal control over financial reporting was effective.

Changes to internal control over financial reporting

As disclosed in note 2 to the consolidated financial statements, Perpetual restated the 2012 comparative figures with respect to accounting for GOB royalty adjustments. Due to the non-routine nature of the gas over bitumen royalty adjustments, this is a specific area of accounting for which there is limited guidance on accounting for obligations to repay some or all of the royalty adjustments received. Management designed a new control in the fourth quarter of 2013 which included modifying Perpetual's methodology for recognition of the royalty adjustments as well as the obligation to repay some of the royalty adjustments received. The financial reporting group incorporated the new control into their processes as well as the methodology for recording royalty adjustments and associated obligations for repayment. No other changes in Perpetual's ICOFR were made during the quarter ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, ICOFR.

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 2013 report filed with the Canadian securities regulators.

CRITICAL ACCOUNTING ESTIMATES

Perpetual makes assumptions in applying certain critical accounting estimates that are uncertain at the time the accounting estimate is made and may have a significant effect on the consolidated financial statements. Critical accounting estimates include oil and natural gas reserves, derivative financial instruments, provisions, the amount and likelihood of contingent liabilities and income taxes. Critical accounting estimates are based on variable inputs including:

- Estimation of recoverable oil and natural gas reserves and future cash flows from reserves;
- Forward market price curves;
- Geological interpretations, success or failure of exploration activities, and Perpetual's plans with respect to property and financial ability to hold the property;
- Risk free interest rates;
- Estimation of future abandonment and reclamation costs
- Facts and circumstances supporting the likelihood and amount of contingent liabilities; and
- Interpretation of income tax laws.

A change in a critical accounting estimate can have a significant effect on net income as a result of their impact on the depletion rate, provisions, impairments, losses 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, 2013.

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. Perpetual's analysis of recent accounting pronouncements is included in the notes to the consolidated financial statements at December 31, 2013.