PERPETUAL ENERGY INC.
Condensed Interim Consolidated Statements of Financial Position

As at	June 30, 2015	December 31, 2014
(*Cdn$ thousands, unaudited*)		
Assets		
Current Assets		
Cash and cash equivalents	**$ 20,826**	$ 11,497
Restricted cash	**–**	6,552
Accounts receivable	**23,241**	50,297
Marketable securities (note 3)	**253,260**	–
Prepaid expenses and deposits	**4,860**	1,635
Derivatives (note 8)	**116**	9,315
	302,303	79,296
Long term Crown receivable	**2,095**	–
Property, plant and equipment (note 4)	**462,960**	561,956
Exploration and evaluation (note 5)	**53,516**	84,227
Equity-method investment	**24,938**	25,123
Total assets	**$ 845,812**	$ 750,602
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 39,424**	$ 91,859
Derivatives (note 8)	**6,632**	2,398
Bank indebtedness (note 6)	**75,000**	–
Convertible debentures (note 9)	**34,330**	33,810
Financial obligation	**3,273**	3,584
Provisions (note 7)	**8,356**	5,372
	167,015	137,023
Derivatives (note 8)	**2,906**	3,872
Senior notes	**271,169**	270,690
Financial obligation	**9,347**	11,806
Provisions (note 7)	**216,150**	220,928
Total liabilities	**666,587**	644,319
Equity		
Share capital	**1,259,581**	1,258,840
Shares held in trust	**(2,496)**	(1,387)
Equity component of convertible debentures	**3,174**	3,174
Contributed surplus	**38,660**	36,754
Deficit	**(1,119,694)**	(1,191,098)
Total equity	**179,225**	106,283
Total liabilities and equity	**$ 845,812**	$ 750,602

Subsequent event (note 6)

See accompanying notes. The notes are an integral part of the Corporation's condensed interim consolidated financial statements.

/s/ Robert A. Maitland

Robert A. Maitland
Director

/s/ Geoffrey C. Merritt

Geoffrey C. Merritt
Director

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
(Cdn$ thousands, except per share amounts, unaudited)				
Revenue				
Oil and natural gas	**$ 32,129**	$ 72,348	**$ 73,933**	$ 137,102
Royalties	**(2,958)**	(9,284)	**(8,412)**	(15,458)
	29,171	63,064	**65,521**	121,644
Change in fair value of commodity price derivatives (note 8)	**1,902**	1,516	**(5,975)**	(17,589)
Gas over bitumen	**685**	3,018	**1,620**	5,643
	31,758	67,598	**61,166**	109,698
Expenses				
Production and operating	**15,796**	18,234	**37,546**	40,001
Transportation	**2,484**	2,905	**6,325**	5,903
Exploration and evaluation (note 5)	**6,432**	1,280	**8,742**	2,296
General and administrative	**5,390**	6,907	**9,966**	12,810
Gain on dispositions (note 4)	**(135,687)**	–	**(140,011)**	(5,622)
Depletion and depreciation (note 4)	**19,496**	24,492	**44,446**	47,229
Income from operating activities	**117,847**	13,780	**94,152**	7,081
Finance expense (note 10)	**(14,714)**	(10,078)	**(22,563)**	(19,617)
Share of net income (loss) of equity-method investment	**988**	(1,153)	**(185)**	(2,239)
Net income (loss) and comprehensive income (loss)	**$ 104,121**	$ 2,549	**$ 71,404**	$ (14,775)
Income (loss) per share (note 11)				
Basic	**$ 0.70**	$ 0.02	**$ 0.48**	$ (0.10)
Diluted	**$ 0.66**	$ 0.02	**$ 0.46**	$ (0.10)

See accompanying notes. The notes are an integral part of the Corporation's condensed interim consolidated financial statements.

PERPETUAL ENERGY INC.
Condensed Interim Consolidated Statements of Changes in Equity

(*Cdn$ thousands, unaudited*)	Share capital (*thousands*)	Share capital (*$ thousands*)	Shares held in trust	Equity component of convertible debentures	Contributed surplus	Deficit	Total Equity
Balance at December 31, 2014	150,077	$ 1,258,840	$ (1,387)	$ 3,174	$ 36,754	$ (1,191,098)	$ 106,283
Net income	–	–	–	–	–	71,404	71,404
Common shares issued	2,294	741	–	–	(399)	–	342
Share based compensation	–	–	–	–	2,305	–	2,305
Change in shares held in trust	–	–	(1,109)	–	–	–	(1,109)
Balance at June 30, 2015	**152,371**	**$1,259,581**	**$ (2,496)**	**$ 3,174**	**$ 38,660**	**$ (1,119,694)**	**$ 179,225**

(*Cdn$ thousands, unaudited*)	Share capital (*thousands*)	Share capital (*$ thousands*)	Shares held in trust	Equity component of convertible debentures	Contributed surplus	Deficit	Total Equity
Balance at December 31, 2013	148,490	$ 1,257,315	$ –	$ 13,971	$ 21,474	$ (1,194,464)	$ 98,296
Net loss	–	–	–	–	–	(14,775)	(14,775)
Common shares issued	453	1,088	–	–	(1,082)	–	6
Share based compensation	–	–	–	–	2,669	–	2,669
Change in shares held in trust	–	–	(251)	–	–	–	(251)
Balance at June 30, 2014	148,943	$ 1,258,403	$ (251)	$ 13,971	$ 23,061	$ (1,209,239)	$ 85,945

See accompanying notes. The notes are an integral part of the Corporation’s condensed interim consolidated financial statements.

PERPETUAL ENERGY INC.
Condensed Interim Consolidated Statements of Cash Flows

(*Cdn$ thousands, unaudited*)	Three months ended June 30, **2015**	2014	Six months ended June 30, **2015**	2014
Cash flows from (used in) operating activities				
Net income (loss)	**$ 104,121**	$ 2,549	**$ 71,404**	$ (14,775)
Adjustments to add (deduct) non-cash items:				
Depletion and depreciation	**19,496**	24,492	**44,446**	47,229
Exploration and evaluation (note 5)	**5,707**	401	**5,906**	752
Share based compensation expense	**1,299**	1,528	**2,294**	2,669
Change in fair value of commodity price derivatives	**2,569**	(6,994)	**12,467**	5,737
Finance expenses (note 10)	**6,904**	2,517	**7,858**	4,788
Share of net (income) loss of equity-method investment	**(988)**	1,153	**185**	2,239
Gain on dispositions	**(135,687)**	–	**(140,011)**	(5,622)
Long term Crown receivable adjustments	**(2,095)**	8,225	**(2,095)**	10,997
Expenditures on decommissioning obligations	**(1,097)**	(628)	**(4,148)**	(3,029)
Change in non-cash working capital	**1,040**	(10,638)	**4,923**	(13,848)
Net cash from operating activities	**1,269**	22,605	**3,229**	37,137
Cash flows from (used in) financing activities				
Change in bank indebtedness	**21,704**	(15,162)	**75,000**	(10,483)
Change in financial obligation	**(891)**	18,454	**(1,996)**	18,454
Transactions with trustee	**–**	–	**(1,109)**	(251)
Common shares issued	**2**	6	**342**	6
Change in non-cash working capital	**5,064**	4,035	**(341)**	(54)
Net cash from financing activities	**25,879**	7,333	**71,896**	7,672
Cash flows from (used in) investing activities				
Acquisitions	**(240)**	(91)	**(243)**	(242)
Capital expenditures	**(13,349)**	(12,359)	**(60,256)**	(43,774)
Proceeds on dispositions	**21,337**	3,000	**21,326**	3,000
Change in non-cash working capital	**(14,070)**	(20,488)	**(26,623)**	(3,793)
Net cash used in investing activities	**(6,322)**	(29,938)	**(65,796)**	(44,809)
Change in cash and cash equivalents	**20,826**	–	**9,329**	–
Cash and cash equivalents, beginning of period	**–**	–	**11,497**	–
Cash and cash equivalents, end of period	**$ 20,826**	$ –	**$ 20,826**	$ –
Interest paid	**$ 2,746**	$ 3,409	**$ 15,047**	$ 14,903

See accompanying notes. The notes are an integral part of the Corporation's condensed interim consolidated financial statements.

1. REPORTING ENTITY

Perpetual Energy Inc. ("Perpetual" or the "Corporation") is a Canadian corporation engaged in the exploration, development and marketing of oil and gas based energy in Alberta, Canada. The Corporation operates a diversified asset portfolio that includes shallow gas and conventional heavy oil in eastern Alberta, liquids-rich gas in the Alberta deep basin and several long-term resource style tight gas and bitumen resource properties.

The address of the Corporation's registered office is 3200, 605 – 5 Avenue SW, Calgary, Alberta, T2P 3H5.

The condensed interim consolidated financial statements of the Corporation as at and for the three and six months ended June 30, 2015 are comprised of the accounts of Perpetual and its wholly owned subsidiaries, Perpetual Energy Operating Corp. and Perpetual Operating Trust, which are incorporated in Canada.

2. BASIS OF PREPARATION

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and do not include all of the information required for full annual financial statements. These condensed interim consolidated financial statements should be read in conjunction with the Corporation's consolidated financial statements as at and for the year ended December 31, 2014 which were prepared in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The accounting policies, basis of measurement, critical accounting judgments and significant estimates used to prepare the annual consolidated financial statements as at and for the year ended December 31, 2014 have been applied in the preparation of these condensed interim consolidated financial statements.

These condensed interim consolidated financial statements of the Corporation were approved and authorized for issue by the Board of Directors on August 10, 2015.

3. MARKETABLE SECURITIES

At June 30, 2015, the Corporation held 6.75 million common shares of Tourmaline Oil Corp. ("TOU Shares") which were received in exchange for the Corporation's West Edson asset (note 4) upon closing on April 1, 2015.

Marketable securities are non-derivative financial instruments classified as fair value through profit or loss ("FVTPL") as the Corporation manages such investments and makes decisions based on their fair value in accordance with the Corporation's risk management or investment strategy. At June 30, 2015, the fair market value of the marketable securities was $253.3 million based on a June 30, 2015 closing share price of $37.52 per share. Income for the period includes an unrealized loss of $5.4 million representing the change in value between closing on April 1, 2015 of $258.7 million ($38.32/share) and the period end mark-to-market value of $253.3 million ($37.52/share).

4. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Corporate assets	Total
Cost			
December 31, 2013	$ 2,560,503	$ 6,407	$ 2,566,910
Additions	114,975	614	115,589
Non-monetary additions	9,362	–	9,362
Change in decommissioning obligations estimates	8,324	–	8,324
Transferred from exploration and evaluation	5,495	–	5,495
Acquisitions	826	–	826
Dispositions	(65,585)	–	(65,585)
December 31, 2014	2,633,900	7,021	2,640,921
Additions	57,808	27	57,835
Change in decommissioning obligations estimates	617	–	617
Transferred from exploration and evaluation	692	–	692
Acquisitions	3	–	3
Dispositions	(218,793)	–	(218,793)
June 30, 2015	**$ 2,474,227**	**$ 7,048**	**$ 2,481,275**
Accumulated depletion, depreciation and impairment losses			
December 31, 2013	$ (1,983,978)	$ (5,978)	$ (1,989,956)
Depletion and depreciation	(94,391)	(345)	(94,736)
Dispositions	27,127	–	27,127
Impairment	(26,400)	–	(26,400)
Impairment reversal	5,000	–	5,000
December 31, 2014	(2,072,642)	(6,323)	(2,078,965)
Depletion and depreciation	(44,301)	(145)	(44,446)
Dispositions	105,096	–	105,096
June 30, 2015	**$ (2,011,847)**	**$ (6,468)**	**$ (2,018,315)**
Carrying amount			
December 31, 2014	$ 561,258	$ 698	$ 561,956
June 30, 2015	**$ 462,380**	**$ 580**	**$ 462,960**

As at June 30, 2015, property, plant and equipment included $34.2 million (December 31, 2014 - $35.0 million) of costs currently not subject to depletion and $19.6 million (December 31, 2014 - $19.6 million) of costs related to shut-in gas over bitumen reserves which are not being depleted due to the non-producing status of the wells in the affected properties.

During the six months ended June 30, 2015, the Corporation disposed of oil and natural gas properties for net proceeds of $21.3 million (2014 - $3 million). In addition, the Corporation closed an arrangement to swap its joint interest share in its West Edson asset in West Central Alberta for 6.75 million TOU Shares valued at approximately $258.7 million. Net gains on dispositions totaling $140.0 million (2014 – $5.6 million) were recorded in net income.

5. EXPLORATION AND EVALUATION

	June 30, 2015	December 31, 2014
Carrying amount, beginning of period	**$ 84,227**	$ 88,177
Additions	**3,863**	3,990
Non-monetary additions	**5,880**	6,000
Acquisitions	**240**	172
Dispositions	**(34,096)**	(6,482)
Transfers to property, plant and equipment	**(692)**	(5,495)
Non-cash exploration and evaluation expense	**(5,906)**	(2,135)
Carrying amount, end of period	**$ 53,516**	$ 84,227

During the six months ended June 30, 2015, $2.8 million (2014 - $1.5 million) in costs were charged directly to exploration and evaluation expense in net income.

6. BANK INDEBTEDNESS

The Corporation's credit facility is with a syndicate of Canadian chartered banks. On April 1, 2015, as part of the lender's semi-annual review of the borrowing base and in conjunction with the West Edson swap, total availability was reduced from $105 million to $100 million consisting of a term loan of $75 million, and a revolving credit facility of $25 million which includes a $10 million demand loan and $15 million working capital facility. The revolving feature of the credit facility expires on April 29, 2016 with a 365 day term to maturity should it not be extended. The term loan matures on November 30, 2015 which can be extended to April 29, 2016 should the settlement of the Corporation's 7.00% Convertible Debentures occur prior to October 31, 2015 (note 9). The next semi-annual redetermination of the Corporation's borrowing base will occur on or before October 31, 2015.

Subsequent to the end of the second quarter, the term loan was permanently reduced to $70.6 million in conjunction with a decrease in the fair market value of TOU shares, which serve as collateral for the term loan. Total availability under the term loan was reduced in accordance with the requirement to maintain the 1 to 3 lending ratio based on the daily closing market value of TOU shares.

The Corporation has covenants that require consolidated debt to trailing twelve month income before interest, taxes, depletion and depreciation and non-cash items ("Consolidated Debt Ratio") to be less than 4.0 to 1.0 except for the quarters ending December 31, 2015 and March 31, 2016 when the Corporation will be required to maintain a Consolidated Debt Ratio not exceeding 5.0 to 1.0. Consolidated debt is defined as the sum of the Corporation's period end balance of the term loan, credit facility, senior notes and outstanding letters of credit less the mark to market value of TOU Shares. The credit facility also contains covenants that require consolidated senior debt to trailing twelve month income before interest, taxes, depletion and depreciation and non-cash items ("Consolidated Senior Debt Ratio") to be less than 3.0 to 1.0. Consolidated senior debt is defined as the sum of consolidated debt less the period end balance of the senior notes.

The Corporation was in compliance with the lender's covenants at June 30, 2015.

Advances under the credit facility are made in the form of Banker's Acceptances ("BA"), prime rate loans or letters of credit at the Corporation's option. At June 30, 2015, the Corporation was undrawn on the credit facility and has outstanding letters of credit in the amount of $7.8 million (December 31, 2014 – $8.8 million). 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 credit facility.

The credit facility bears interest at its lenders' prime rate or BA rates, plus applicable margins and standby fees. The applicable margins range between 1.25% and 4.75% depending on the form of borrowing and changes in the Corporation's Consolidated Debt Ratio for the most recently completed reporting period.

Collateral for the term loan is provided by a securities pledge agreement relating to the TOU Shares obtained in conjunction with the swap of the West Edson assets. The term loan bears interest at its lenders' prime rate plus applicable margins ranging from 1.25% to 4.75% depending on changes in the Corporation's Consolidated Debt Ratio for the most recently completed reporting period.

7. PROVISIONS

	June 30, 2015	December 31, 2014
Decommissioning obligations, beginning of period	**$ 222,976**	$ 213,906
Obligations acquired	**–**	85
Obligations incurred	**1,442**	3,067
Obligations disposed	**(1,938)**	(1,173)
Change in risk free rate	**617**	14,343
Change in estimates	**–**	(6,019)
Obligations settled	**(4,148)**	(6,633)
Accretion	**1,986**	5,400
Decommissioning obligations, end of period	**220,935**	222,976
Gas over bitumen obligation	**3,571**	3,324
Carrying amount, end of period	**224,506**	226,300
Provisions – current	**8,356**	5,372
Provisions – non-current	**216,150**	220,928
	$ 224,506	$ 226,300

At June 30, 2015, the Corporation used a weighted average risk free rate of 1.89 percent (December 31, 2014 – 1.98 percent) to calculate the present value of the decommissioning obligation.

8. FINANCIAL RISK MANAGEMENT

Realized gains on commodity price derivatives recognized in net income for the six months ended June 30, 2015 were $6.5 million (2014 – losses of $11.9 million). The realized gains on commodity price derivatives for the six months ended June 30, 2015, included gains of $5.7 million in respect of the settlement of contracts prior to maturity (2014 - $0.4 million).

Natural gas contracts

At June 30, 2015, the Corporation had entered into physical natural gas sales arrangements at AECO as follows. Settlements on these physical sales contracts are recognized in oil and natural gas revenue.

Term	Perpetual sold/bought	Volumes at AECO (GJ/d)	Average price ($/GJ)	Type of contract
July 2015	Bought	(20,000)	2.43	Physical
July 2015	Sold	90,000	2.52	Physical
August 2015	Sold	87,500	2.47	Physical

At June 30, 2015, the Corporation had entered into financial natural gas sales arrangements at AECO as follows:

Term	Perpetual sold/bought	Volumes at AECO (GJ/d)	Average price ($/GJ)	Type of contract
July 2015	Bought	(80,000)	2.53	Financial
August 2015	Bought	(82,500)	2.47	Financial
July 2015 – October 2015	Sold	75,000	2.54	Financial
July 2015 – December 2015	Sold	7,500	2.60	Financial
November 2015 – December 2015	Sold	40,000	2.80	Financial
January 2016 – December 2016	Sold	10,000	2.82	Financial

At June 30, 2015, the Corporation had entered into financial natural gas sales arrangements to fix the basis differential between the New York Mercantile Exchange ("NYMEX") and AECO trading hubs. The price at which these contracts settle is equal to the NYMEX index less a fixed basis amount.

Term	Perpetual sold/bought	Volumes at NYMEX-AECO (MMBtu/d)	Average price ($USD/MMBtu)	Type of contract
January 2016 – December 2016	Sold	25,000	(0.76)	Financial

Oil contracts

At June 30, 2015, the Corporation had entered into the following costless collar oil sales arrangements which settle in $CAD:

Term	Volumes at WTI (bbls/d)	Floor price ($CAD/bbl)	Ceiling price ($CAD/bbl)	Type of contract
July 2015 – December 2015	1,000	67.50	76.70	Collar

At June 30, 2015, the Corporation had entered into financial and forward physical oil sales arrangements to fix the basis differential between the West Texas Intermediate ("WTI") and Western Canadian Select ("WCS") trading hubs. The price at which these contracts settle is equal to the WTI index less a fixed basis amount.

Term	Perpetual sold/bought	Volumes at WTI-WCS (bbl/d)	Average differential ($USD/bbl)	Type of contract
July 2015 – December 2015	Sold	1,500	(16.23)	Financial

At June 30, 2015, the Corporation had entered into the following financial Asian call oil sales arrangements whereby the Corporation's counterparty has the right to settle specified volumes of oil at specified prices in the future periods:

Term	Perpetual sold/bought	Volumes at WTI (bbl/d)	Ceiling price ($USD/bbl)	Type of contract
January 2016 – December 2016[1]	Sold	750	90.00	Asian call

[1] If the monthly average WTI settles above $USD90.00/bbl for any month, Perpetual receives a price of $USD80.00/bbl for that month.

Foreign exchange contracts

At June 30, 2015, the Corporation had entered into the following $USD forward sales arrangement:

Term	Perpetual sold/bought	Notional floor $USD/month	Notional ceiling $USD/month	Exchange rate floor ($CAD/$USD)	Exchange rate ceiling ($CAD/$USD)	Type of contract
July 2015 – December 2016[1]	Sold	2,000,000	3,500,000	1.0400	1.1800	Financial

[1] If the monthly average exchange rate is greater than $1.1800 the Corporation pays $USD3,500,000 multiplied by the difference between the average monthly exchange rate and $1.1270. If the monthly average exchange rate settles below $1.0400 the Corporation receives $USD2,000,000 multiplied by the difference between the average monthly exchange rate and $1.0400.

The following table reconciles the Corporation's change in fair value of commodity derivatives:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
Realized gain (loss) on financial oil contracts	**3,530**	(3,235)	**5,747**	(4,628)
Realized gain (loss) on financial natural gas contracts	**2,404**	(2,361)	**3,830**	(7,410)
Realized gain (loss) on forward foreign exchange contracts	**(1,463)**	118	**(3,085)**	186
Unrealized loss on financial oil contracts	**(5,428)**	(1,294)	**(7,813)**	(4,167)
Unrealized gain on physical oil contracts	**–**	69	**–**	249
Unrealized gain (loss) on financial natural gas contracts	**(632)**	5,002	**(1,673)**	(2,011)
Unrealized gain (loss) on physical natural gas contracts	**93**	204	**151**	(204)
Unrealized gain (loss) on forward foreign exchange contracts	**3,398**	3,013	**(3,132)**	396
Change in fair value of commodity price derivatives	**1,902**	1,516	**(5,975)**	(17,589)

Natural gas contracts - sensitivity analysis

As at June 30, 2015, if future natural gas prices changed by $0.25 per GJ with all other variables held constant, the fair value of commodity price derivatives and after tax net income for the period would change by $7.0 million. Fair value sensitivity was based on published forward AECO and NYMEX prices.

Oil contracts - sensitivity analysis

As at June 30, 2015, if future oil prices increased by $5.00 per boe with all other variables held constant, the fair value of commodity price derivatives and after tax net income for the period would increase by $0.7 million. If future oil prices decreased by $5.00 per boe with all other variables held constant, the fair value of commodity price derivatives and after tax net income for the period would decrease by $1.4 million. Fair value sensitivity was based on published forward WTI and WCS prices.

Foreign exchange contracts - sensitivity analysis

As at June 30, 2015, if future exchange rates increased by $0.10 $CAD/$USD with all other variables held constant, the fair value of foreign exchange derivatives and after tax net income for the period would decrease by $6.3 million. If future exchange rates decreased by $0.10 $CAD/$USD with all other variables held constant, the fair value of foreign exchange derivatives and after tax net income for the period would increase by $7.8 million. Fair value sensitivity was based on published forward $CAD/$USD rates.

Financial obligation sensitivity analysis

As at June 30, 2015, if future natural gas prices changed by $0.25 per GJ with all other variables held constant, the fair value of the financial obligation and after tax net income for the period would change by $1.3 million. Fair value sensitivity is based on published forward AECO prices.

Fair value of financial assets and liabilities

Perpetual's fair value measurements are classified as 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 forward prices for commodities.
>
> Level 3 – inputs for the asset or liability are not based on observable market data.

The Corporation 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, restricted cash, accounts receivable, accounts payable and accrued liabilities approximate their carrying amounts due to their short terms to maturity. Bank debt bears interest at a floating market rate with applicable variable margins depending on the form of borrowing and changes in the Corporation's Consolidated Debt Ratio, and accordingly the fair market value approximates the carrying amount.

The fair value of the financial obligation is estimated by discounting future cash payments based on the forecasted Alberta gas reference price multiplied by the contracted deemed volume. This fair value measurement is classified as level 3 as significant unobservable inputs, including the discount rate and forecasted Alberta gas reference prices, are used in determination of the carrying amount. The discount rate of 12.2% (2014 – 12.2%) was determined on inception of the agreement based on the characteristics of the instrument. The forecasted Alberta gas reference prices for the remaining term are based on AECO forward market pricing with adjustments for historical differences between the Alberta reference price and market prices. During the six months ended June 30, 2015, the Corporation recognized payments on the financial obligation of $2.0 million (2014 – nil) and an unrealized gain of $0.8 million (2014 – nil) which is included in finance expense.

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

As at June 30, 2015	Gross	Netting[1]	Carrying Amount	Fair Value Level 1	Level 2	Level 3
Financial assets						
Fair value through profit and loss						
Marketable securities	**253,260**	**–**	**253,260**	**253,260**		
Derivatives – current	**1,334**	**(1,218)**	**116**	**–**	**116**	**–**
Derivatives – non-current	**557**	**(557)**	**–**	**–**	**–**	**–**
Financial Liabilities						
Financial liabilities at amortized cost						
Convertible debentures	**34,330**	**–**	**34,330**	**34,965**	**–**	**–**
Senior notes	**271,169**	**–**	**271,169**	**–**	**245,250**	**–**
Fair value through profit and loss						
Derivatives – current	**7,850**	**(1,218)**	**6,632**	**–**	**6,632**	**–**
Derivatives – non-current	**3,463**	**(557)**	**2,906**	**–**	**2,906**	**–**
Financial obligation – current	**3,273**	**–**	**3,273**	**–**	**–**	**3,273**
Financial obligation – non-current	**9,347**	**–**	**9,347**	**–**	**–**	**9,347**

(1) Derivative assets and liabilities presented in the statement of financial position are shown net of offsetting assets or liabilities where the arrangement provides or the legal right and intention for net settlement exists.

9. CAPITAL MANAGEMENT

The Corporation's remaining $34.9 million 7.00% convertible unsecured subordinated debentures ("7.00% Convertible Debentures") mature on December 31, 2015. While the Corporation has the option to settle all or a portion of the outstanding 7.00% Convertible Debentures through the issuance of common 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 with cash. The syndicate of lenders for the Corporation's term loan is awaiting more certainty on the Corporation's plans to settle the debentures prior to extending maturity of the term loan which, if not renewed, comes due on November 30, 2015. The Corporation will apply to have the maturity extended prior to the next semi-annual review to be completed on or before October 31, 2015.

In advance of the term loan coming due, management is pursuing repayment options for the 7.00% Convertible Debentures including asset dispositions, the sale of TOU Shares, refinancing or a combination thereof. There is no assurance that the Corporation will be able to raise additional capital to settle all or a portion of the outstanding 7.00% Convertible Debentures in cash, in which case, the Corporation would have the option to settle all or a portion of the debentures with common shares.

10. FINANCE EXPENSE

Finance expense for the three and six months ending June 30, 2015 is comprised of the following:

	Three months ended June 30, **2015**	2014	Six months ended June 30, **2015**	2014
Cash interest				
Interest on senior notes	**6,016**	3,272	**12,031**	6,508
Interest on convertible debentures	**611**	2,859	**1,221**	5,717
Interest on bank indebtedness	**1,183**	1,430	**1,453**	2,604
Total cash interest	**7,810**	7,561	**14,705**	14,829
Non-cash finance expense				
Amortization of debt issue costs	**499**	954	**999**	1,885
Accretion on decommissioning obligations (note 7)	**898**	1,344	**1,986**	2,684
Accretion on GOB obligation	**124**	219	**247**	219
Change in fair value of marketable securities	**5,400**	–	**5,400**	–
Change in fair value of financial obligation	**(17)**	–	**(774)**	–
Finance expenses recognized in net income (loss)	**14,714**	10,078	**22,563**	19,617

11. PER SHARE INFORMATION

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
(*thousands, except per share amounts*)				
Net income (loss) – basic	**104,121**	2,549	**71,404**	(14,775)
Effect of dilutive securities	**610**	–	**1,221**	–
Net income (loss) - diluted	**104,731**	2,549	**72,625**	(14,775)
Weighted average shares				
Issued common shares	**151,376**	149,029	**150,745**	148,791
Effect of shares held in trust	**(2,008)**	(194)	**(1,793)**	(149)
Weighted average common shares outstanding – basic	**149,368**	148,835	**148,952**	148,642
Effect of dilutive securities	**8,226**	8,720	**8,729**	–
Weighted average common shares outstanding - diluted	**157,594**	157,555	**157,681**	148,642
Income (loss) per share – basic	**0.70**	0.02	**0.48**	(0.10)
Income (loss) per share – diluted	**0.66**	0.02	**0.46**	(0.10)

In computing per share amounts for the three months ended June 30, 2015, 0.5 million potentially issuable common shares through the share based compensation plans (2014 – nil) were excluded as they had an anti-dilutive effect on calculated per share amounts.

In computing per share amounts for the six months ended June 30, 2015, 1.0 million potentially issuable common shares through the share based compensation plans (2014 – 6.4 million) were excluded as they had an anti-dilutive effect on calculated per share amounts.