MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is management's discussion and analysis ("MD&A") of Perpetual Energy Inc.'s ("Perpetual", the "Company" or the "Corporation") operating and financial results for the three and nine months ended September 30, 2017 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 condensed interim consolidated financial statements and accompanying notes for the three and nine months ended September 30, 2017 as well as audited consolidated financial statements and accompanying notes for the years ended December 31, 2016 and 2015. The MD&A should be read in conjunction with the Corporation's MD&A for the year ended December 31, 2016 as disclosure which is unchanged from the December 31, 2016 MD&A has not been duplicated herein. 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 and Statements" section of this MD&A. The date of this MD&A is November 6, 2017.

Certain financial measures referred to in this MD&A are not prescribed by IFRS. See "Non-GAAP Financial Measures" for information regarding the following non-GAAP financial measures used in this MD&A: "adjusted funds flow", "operating netback", "realized revenue", "gas over bitumen net of payments", "adjusted working capital deficiency (surplus)", "net debt", and "total capitalization".

NATURE OF BUSINESS: Perpetual is an oil and natural gas exploration, production and marketing company headquartered in Calgary, Alberta. Perpetual operates a diversified asset portfolio, including liquids-rich natural gas assets in the deep basin of west central Alberta, heavy oil and shallow natural gas in eastern Alberta, with longer term opportunities through undeveloped oil sands leases in northern Alberta. Additional information on Perpetual, including the most recently filed Annual Information Form ("AIF"), can be accessed at www.sedar.com or from the Corporation's website at www.perpetualenergyinc.com.

On October 1, 2016, the Company disposed of a significant portion of it's shallow gas properties in east central and northeast Alberta (the "Shallow Gas Disposition"). The Shallow Gas Disposition resulted in the sale of over 5,953 boe/d (40% of Perpetual's production at the time of sale) of low netback, mature shallow gas production and approximately 20% of proved and probable reserves, but created significant value by disposing of $128.0 million of decommissioning obligations while improving cash flow. The impact of this disposition has a pervasive effect when comparing to prior period financial and operating results in this MD&A and is the primary driver of period over period variances unless otherwise noted in the foregoing analysis.

THIRD QUARTER 2017 HIGHLIGHTS

The strategic focusing of our asset base, strengthening of our balance sheet, and steady execution of our growth-oriented capital program delivered attractive results in the third quarter.

Exploration and development spending totaled $25.4 million in the third quarter ($53.9 million year to date), a significant increase over prior year spending of $1.4 million ($7.0 million year to date).

Drilling and completion activity was focused within West Central Alberta at East Edson during the third quarter of 2017, and included the drilling of four (4.0 net) Wilrich horizontal wells and the completion of seven (7.0 net) wells, four of which were drilled in the first half of 2017. An additional one (0.4 net) exploration well was rig released in the third quarter at the Columbia/Brazeau area within West Central Alberta, with frac and completion activities taking place in October. Capital spending in eastern Alberta was minimal during the third quarter of 2017, as activities were focused on abandonment and reclamation projects.

Third quarter average production of 10,330 boe/d was 12% higher than the second quarter of 2017, driven by the East Edson capital program. Production was constrained by firm transportation capacity. Additionally, Perpetual shut-in an average 450 boe/d of East Edson production during the quarter from new wells to optimize the value of production with minimal impact on adjusted funds flow by taking advantage of temporary situations when natural gas could be purchased at nominal cost and delivered against pre-sold volume commitments at attractive margins. Production growth was focused at West Central, which comprised 80% of total production, and increased 17% (1,190 boe/d) over second quarter production. Third quarter exit production rates at East Edson were more than 40% higher than second quarter exit rates.

Perpetual demonstrated significant improvement in it's per unit cost structure in the third quarter. Compared to the second quarter of 2017, royalties, production and operating expenses, and general and administrative expenses decreased by $1.55/boe (36%), $1.07/boe (19%) and $0.74/boe (20%) respectively, due to the impact of increasing production across the higher percentage of fixed costs combined with diligent cost control.

Adjusted funds flow reached $8.2 million in the third quarter, up 56% ($3.0 million) over the second quarter and up $8.8 million over the comparative period in 2016. Adjusted funds flow per boe was $8.62/boe, an increase of $2.38/boe (38%) as improved operating performance significantly outpaced the 8% ($1.93/boe) decrease in realized revenue per boe. Perpetual's average realized natural gas price in the third quarter decreased by 2% from second quarter realized prices, compared to a 27% decrease in the AECO Monthly Index for the same period. The 12% production increase in the third quarter contributed the remaining increase in adjusted funds flow.

Perpetual continued to take positive steps to strengthen its financial position during the third quarter. On July 4, 2017, the Company announced that it had doubled its borrowing capacity available under its reserve-based revolving bank debt (the "Credit Facility") to $40 million and extended its repayment term to two years, at lower borrowing costs. On July 31, 2017, the Company also completed the refinancing of the $36.5 million of margin loans secured by the Company's shares of Tourmaline Oil Corp. (TSX - "TOU"), with $18.7 million of proceeds from a replacement one-year margin loan, and borrowings under its Credit Facility. In mid-July, $1.0 million face value of senior notes due to mature on July 23, 2019 (the "2019 Senior Notes") were re-purchased at 96.75% of face value and also retired. On July 7, 2017, Moody's Investor Service upgraded Perpetual's corporate credit rating to Caa1 stable. As at September 30, 2017, 45% of Perpetual's debt matures in 2021 or later.

OUTLOOK

Success in advancing the Company's strategic priorities has established a foundation for strong growth in production and adjusted funds flow in 2017 and 2018. The Company expects to continue to drive capital efficiency improvements and reductions in operating, financing and administrative costs to improve upon the sustainable cost structure achieved through strategic decisions implemented over the past two years.

Based on the total capital spending plan in 2017 of $73 to $78 million, Perpetual continues to expect to exit 2017 at a production rate close to 13,000 boe/d (85% natural gas). This represents exit rate growth based on average December production of approximately 60% compared to the prior year.

During the fourth quarter of 2017, the Company plans to drill four (4.0 net) wells at East Edson. With the completion and frac of these wells, production capability at East Edson will continue to exceed the company-owned infrastructure capacity and matching firm transportation capacity of 60 to 65 MMcf/d plus associated liquids. Additional compression will be installed at the West Wolf Lake plant during the fourth quarter to increase total East Edson natural gas processing capacity to 78 MMcf/d to match the increase in its firm transportation capacity scheduled on or before April 1, 2018. Capital spending at Mannville will be primarily focused on additional waterflood conversions as well as shallow gas recompletions, with up to ten additional recompletions planned for the fourth quarter of 2017.

Capital spending during the remainder of 2017 will be funded through adjusted funds flow generation, the final $10 million drawdown of the Term Loan and borrowings under the Credit Facility. Perpetual is currently in discussions with its Credit Facility lenders regarding the redetermination of its borrowing limit effective November 30, 2017, and anticipates an increase to the borrowing limit.

In order to protect a base level of adjusted funds flow, Perpetual has commodity price contracts in place for the remainder of 2017 on an estimated 42% of forecast production. These include a combination of forward month physical and financial natural gas contracts at AECO hub on a net 27,500 GJ/d to December 2017 at an average price of $3.16/GJ and 12,500 GJ/d for November 2017 through March 2018 at an average price of $2.94/GJ. Perpetual also has oil sales arrangements on 750 bbl/d protecting a WTI floor price of $USD50.00/bbl for the remainder of 2017. Additionally, the Company has diversified its natural gas price exposure from AECO by entering into arrangements to sell 34.1 MMcf/d priced using a basket of five North American natural gas hub pricing points (Chicago, Dawn, Empress, Malin and Mich Con) for a five year period commencing November 1, 2017 (39.0 MMcf/d commencing April 1, 2018). Based on current futures prices, Perpetual expects these gas price diversification contracts will provide a significant premium over AECO prices for the November 2017 to December 2018 time frame.

Based on these assumptions and the current forward market for oil and natural gas prices, Perpetual forecasts 2017 adjusted funds flow of approximately $28 to $32 million. Incorporating the current market value of 1.67 million TOU shares, the Company estimates year-end 2017 total net debt of approximately $100 to $105 million, with a corresponding estimated net debt to trailing twelve months adjusted funds flow ratio of approximately 3.5 at year end 2017.

For 2018, Perpetual is anticipating a capital program that will be substantially funded by adjusted funds flow. Annual production in 2018 is anticipated to increase by approximately 30% over 2017.

THIRD QUARTER FINANCIAL AND OPERATING RESULTS

Capital expenditures

	Three months ended September 30,		Nine months ended September 30,	
(*$ thousands*)	**2017**	2016	**2017**	2016
Exploration and development	**25,384**	1,379	**53,928**	6,995
Other	**8**	32	**60**	516
Capital expenditures	**25,392**	1,411	**53,988**	7,511
Geological and geophysical costs[1]	**–**	–	**(22)**	26
Acquisitions	**224**	12	**432**	12
Net payments (proceeds) on dispositions	**456**	(1,000)	**1,020**	(7,768)
Total	**26,072**	423	**55,418**	(219)

(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 for the purposes of this MD&A.

Exploration and development spending by area

	Three months ended September 30,		Nine months ended September 30,	
(*$ thousands*)	**2017**	2016	**2017**	2016
West Central	**25,368**	1,330	**47,341**	6,641
Eastern Alberta	**16**	49	**6,587**	354
Total	**25,384**	1,379	**53,928**	6,995

Wells drilled by area

(gross/net)	Three months ended September 30, 2017	2016	Nine months ended September 30, 2017	2016
West Central	**5/4.4**	-/-	**11/10.4**	1/1.0
Eastern Alberta	**-/-**	-/-	**5/4.3**	-/-
Total	**5/4.4**	-/-	**16/14.7**	1/1.0

Perpetual's exploration and development spending in the third quarter of 2017 totaled $25.4 million (Q3 2016 - $1.4 million). For the nine months ended September 30, 2017, exploration and development expenditures reached $53.9 million compared to $7.0 million in the comparable period, as financing initiatives have supported increased investment in the Company's asset base.

Spending at East Edson comprised substantially all exploration and development expenditures in the third quarter (88% year to date). East Edson capital activity included the drilling of four (4.0 net) Wilrich horizontal wells and the completion of seven (7.0 net) wells, four of which were drilled in the first half of 2017. In addition, one (0.4 net) exploratory well was rig released in the third quarter in the Columbia/Brazeau area in West Central Alberta.

Drilling to date has resulted in the Company currently having adequate production capability at East Edson to fill the existing Company-owned processing infrastructure and matching firm transportation capacity of 58 MMcf/d plus associated liquids. The Company plans to continue its one-rig drilling program through the fourth quarter, including its first four (4.0 net) extended reach horizontal ("ERH") wells, and install additional compression at the Company's 100% working interest West Wolf Lake facility in order to grow production and to fill additional firm transportation taking effect April 1, 2018, bringing the East Edson area processing capacity total to 78 MMcf/d. The new compression will increase the capacity of the West Wolf plant from 52 MMcf/d to 67 MMcf/d for an expected cost of $2.1 million. Drilling and completion costs continue to show a 35-40% improvement over prior year costs as a result of well design changes. Ten monobore wells with an average 1,700 metre horizontal section have now been drilled, completed and tied in at an average cost of $4.1 million per well, with the most recent two-well pad coming in at $3.7 million, equating to $2,400 per horizontal metre. Going forward, ERH wells with horizontal sections of more than 3,000 metres are expected to further improve costs to $2,000 per horizontal metre and drive capital efficiencies to less than $8,000 per boe/d average for the first year of production.

Capital spending in eastern Alberta was minimal during the third quarter of 2017, with activities primarily directed towards abandonment and reclamation projects. Spending is expected to increase in the fourth quarter as waterflood optimization continues with the conversion of two new injectors. Low variable operating costs and synergy with well abandonment programs in the Mannville area result in gas recompletions paying out within 6-12 months even at low commodity prices. These will continue during the fourth quarter of 2017 with up to ten additional recompletions planned.

Expenditures on decommissioning obligations

During the three months ended September 30, 2017, Perpetual spent $0.9 million (Q3 2016 - $1.4 million) on abandonment and reclamation projects in the Mannville area. Perpetual has received two reclamation certificates in the third quarter (29 reclamation certificates year-to-date). Perpetual will continue to execute an internally managed asset retirement program at Mannville in the fourth quarter of 2017 targeting well abandonments, pipeline discontinuations and abandonments as well as reclamation work in an effort to reduce mineral and surface lease rental payments, maintenance costs and high municipal taxes. Expenditures of up to $0.75 million are anticipated over the remainder of 2017.

Net income (loss)

The loss from operating activities for the third quarter of 2017 was $1.6 million, an $8.1 million improvement over the prior year period due to improved realized commodity prices, cost reductions, and the absence of high cost, Shallow Gas Disposition production. For the nine month period ended September 30, 2017, the loss from operating activities was $4.1 million, a $23.4 million improvement over the prior year period, due to the same drivers of improved third quarter comparable performance.

Net loss for the three month and nine month periods ended September 30, 2017 was $8.1 million and $29.5 million respectively, and included reductions in the fair value of Perpetual's TOU share investment of $4.2 million and $18.4 million respectively, due to the declines in TOU's share price during the period.

Net income for the nine month period ended September 30, 2016 of $86.8 million included an $81.3 million gain realized on the exchange of 4.4 million TOU shares for $214.4 million principal amount of 8.75% senior notes at a discount to par value that was completed in the second quarter of 2016. The resulting reduction in debt is the primary contributor to lower finance expense levels in 2017. The fair value of the Company's TOU share investment increased by $58.2 million in the nine month period ended September 30, 2016 which further contributed to net income.

Cash flow from operating activities

Cash flow from operating activities for the third quarter of 2017 reached $5.8 million, an increase of $7.5 million from the prior year period, due to improved commodity prices, lower costs in 2017 and the absence of high cost production from the 2016 Shallow Gas Disposition.

For the nine months ended September 30, 2017, cash flow from operating activities was $8.2 million, an improvement of $20.1 million over the prior year period due to the same drivers that contributed to improved operating performance in the third quarter.

Adjusted funds flow

For the third quarter of 2017, adjusted funds flow was $8.2 million (nine months ended September 30, 2017 - $18.6 million), an $8.8 million increase over the prior year period (nine months ended September 30, 2017 - $21.0 million increase over the prior year period). Improved adjusted funds flow performance was due to the same factors detailed above that contributed to improved cash flow from operating activities.

Below is a table to reconcile cash flow from operating activities to adjusted funds flow:

	Three months ended September 30,		Nine months ended September 30,	
(*$ thousands, except per share amounts*)	**2017**	2016	**2017**	2016
Cash flow from (used in) operating activities	**5,778**	(1,710)	**8,217**	(11,876)
Changes in non-cash working capital	**1,675**	163	**8,701**	7,449
Payments on gas over bitumen royalty financing[1]	**(558)**	(482)	**(2,084)**	(1,438)
Payments on restructuring costs[2]	**417**	–	**2,316**	–
Expenditures on decommissioning obligations	**887**	1,427	**1,424**	3,433
Exploration and evaluation costs[3]	**–**	–	**(22)**	26
Adjusted funds flow	**8,199**	(602)	**18,552**	(2,406)
Adjusted funds flow per share[4]	**0.14**	(0.01)	**0.32**	(0.05)

(1) These payments are indexed to gas over bitumen revenue and are recorded as a reduction to the Corporation's gas over bitumen royalty financing obligation in accordance with IFRS. To present gas over bitumen revenue net of these payments, the Corporation has reclassified these payments from financing to operating activities in the calculation of adjusted funds flow.

(2) Restructuring cost payments include employee downsizing costs and surplus office lease obligations associated with the Shallow Gas Disposition which the Company considers to be unrelated to cash flow from operating activities.

(3) The Corporation expenses exploratory dry hole costs, geological and geophysical costs, lease rentals on undeveloped properties and the cost of expired leases in the period incurred. To make reported adjusted funds flow in this MD&A more comparable to industry practice, dry hole costs and geological and geophysical costs are reclassified from operating to investing activities in the adjusted funds flow reconciliation.

(4) Based on basic weighted average shares outstanding for the period.

Management uses adjusted funds flow and adjusted funds flow per share to analyze operating performance and borrowing capacity. Adjusted funds flow is comprised of cash flow from operating activities before changes in non-cash working capital, settlement of decommissioning obligations, payments on restructuring costs and certain exploration and evaluation costs, but after payments on the gas over bitumen royalty financing. Adjusted funds flow is not intended to represent cash flow from operating activities, net earnings or other measures of financial performance calculated in accordance with IFRS.

Reconciliation of adjusted funds flow to net income (loss)

	Three months ended September 30,			
	2017		2016	
	($ thousands)	***($/boe)***	(*$ thousands*)	(*$/boe*)
Realized revenue[1]	**20,691**	**21.77**	19,636	15.11
Royalties[2]	**(2,614)**	**(2.75)**	(2,217)	(1.71)
Production and operating expenses	**(3,326)**	**(3.50)**	(9,566)	(7.36)
Transportation costs	**(1,331)**	**(1.40)**	(2,343)	(1.80)
Operating netback[1]	**13,420**	**14.12**	5,510	4.24
Gas over bitumen revenue net of payments	**(205)**	**(0.22)**	66	0.05
Other revenue	**10**	**0.01**	–	–
Exploration and evaluation – lease rentals	**(178)**	**(0.19)**	(384)	(0.30)
General and administrative expense	**(2,850)**	**(3.00)**	(3,828)	(2.95)
Finance expense, cash	**(1,998)**	**(2.10)**	(1,966)	(1.51)
Adjusted funds flow[1]	**8,199**	**8.62**	(602)	(0.47)
Unrealized gains (losses) on derivatives	**(96)**	**(0.10)**	6,179	4.76
Payments on gas over bitumen royalty financing	**558**	**0.59**	482	0.37
Exploration and evaluation[3]	**(784)**	**(0.82)**	(1,377)	(1.06)
Share based compensation expense, non-cash	**(906)**	**(0.95)**	(2,073)	(1.60)
Loss on onerous contract	**–**	**–**	(918)	(0.71)
Gain (loss) on dispositions	**(2,278)**	**(2.40)**	244	0.19
Depletion and depreciation	**(8,967)**	**(9.44)**	(13,676)	(10.53)
Finance expense, non-cash	**377**	**0.40**	(2,007)	(1.54)
Change in fair value of TOU share investment	**(4,185)**	**(4.40)**	2,829	2.18
Net income (loss)	**(8,082)**	**(8.50)**	(10,919)	(8.41)

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

(2) Includes $1.2 million in gross overriding royalty payments at East Edson for the three months ended September 30, 2017 (Q3 2016- $1.2 million).

(3) Includes non-cash exploration and evaluation expense from expired leases and geological and geophysical costs.

Perpetual's operating netback of $14.12/boe ($13.4 million) in the third quarter of 2017 increased 233% from $4.24/boe ($5.5 million) in the comparative period of 2016. This increase was due to the 44% increase in realized revenue per boe, despite lower natural gas index prices, and the 52% reduction in unit production and operating expenses, partially offset by increased royalties related to lower gas cost allowance recoveries from the Crown. Improved operating cost performance reflected the impact of the Shallow Gas Disposition combined with improved cost performance on retained properties.

			Nine months ended September 30,	
		2017		2016
	($ thousands)	***($/boe)***	*($ thousands)*	*($/boe)*
Realized revenue[1]	**59,486**	**23.58**	72,408	16.37
Royalties[2]	**(9,322)**	**(3.70)**	(6,345)	(1.43)
Production and operating expenses	**(12,561)**	**(4.98)**	(33,415)	(7.55)
Transportation costs	**(3,572)**	**(1.42)**	(6,956)	(1.57)
Operating netback[1]	**34,031**	**13.48**	25,692	5.82
Gas over bitumen revenue net of payments	**(119)**	**(0.05)**	(150)	(0.03)
Other revenue	**96**	**0.04**	–	–
Exploration and evaluation – lease rentals	**(547)**	**(0.22)**	(1,464)	(0.33)
General and administrative expense	**(9,093)**	**(3.60)**	(13,498)	(3.05)
Finance expense, cash	**(5,816)**	**(2.31)**	(13,487)	(3.05)
Dividends from gas storage investment	**–**	**–**	501	0.11
Adjusted funds flow[1]	**18,552**	**7.34**	(2,406)	(0.53)
Unrealized gains (losses) on derivatives	**4,279**	**1.70**	7,701	1.74
Payments on gas over bitumen royalty financing	**2,084**	**0.83**	1,438	0.33
Exploration and evaluation[3]	**(2,580)**	**(1.02)**	(2,743)	(0.62)
Share based compensation expense, non-cash	**(3,423)**	**(1.36)**	(4,431)	(1.00)
Loss on onerous contracts	**–**	**–**	(918)	(0.21)
Gain (loss) on dispositions	**(5,501)**	**(2.18)**	2,090	0.47
Gain on exchange of senior notes for TOU shares	**–**	**–**	81,572	18.44
Depletion and depreciation	**(24,021)**	**(9.52)**	(47,369)	(10.71)
Finance expense, non-cash	**(511)**	**(0.20)**	(6,900)	(1.56)
Change in fair value of TOU share investment	**(18,352)**	**(7.28)**	58,213	13.16
Net income and dividends from gas storage investment	**–**	**–**	523	0.12
Net income (loss)	**(29,473)**	**(11.69)**	86,770	19.63

(1) See "Non-GAAP measures" in this MD&A.
(2) Includes $5.3 million in gross overriding royalty payments at East Edson for the nine months ended September 30, 2017 (2016- $3.6 million).
(3) Includes non-cash exploration and evaluation expense from expired leases and geological and geophysical costs.

Perpetual's operating netback of $13.48/boe ($34.0 million) for the nine months ended September 30, 2017 increased 132% over $5.82/boe ($25.7 million) in the prior year period. The increase was due primarily to a 44% increase in realized revenue per boe, despite lower natural gas index prices, and a 34% reduction in unit production and operating expenses. Improved operating performance reflected the impact of the Shallow Gas Disposition combined with improved cost performance on retained properties.

Production

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	**2017**	2016
Natural gas (*MMcf/d*)				
Eastern Alberta	**6.4**	40.8	**6.4**	43.6
West Central	**45.4**	34.7	**39.5**	42.7
Total natural gas	**51.8**	75.5	**45.9**	86.3
Crude oil (*bbl/d*)				
Eastern Alberta[1]	**956**	1,032	**949**	1,084
West Central	**22**	20	**19**	16
Total crude oil	**978**	1,052	**968**	1,100
Total NGL (*bbl/d*)[2]	**733**	476	**627**	664
Total production (*boe/d*)	**10,330**	14,123	**9,240**	16,146

(1) Primarily Mannville heavy oil.
(2) Primarily West Central liquids-rich gas.

Third quarter production averaged 10,330 boe/d, down 3,793 boe/d or 27% from the prior year period production of 14,123 boe/d, due primarily to the absence of 5,953 boe/d related to the October 1, 2016 Shallow Gas Disposition, partially offset by strong growth in West Central production driven by the 2017 drilling program, and despite an average 450 boe/d of voluntary shut-ins that the Company strategically implemented to maximize production value with minimal impact on adjusted funds flow. For the nine months ended September 30, 2017, production averaged 9,240 boe/d, down 43% from the prior year period, due to the same reasons noted above.

Natural gas production at West Central increased by 31% from the prior year period and 17% from the second quarter of 2017, as the startup of new wells in the first nine months of 2017 more than made up for natural declines resulting from limited capital expenditures in 2016. Drilling at East Edson began ramping up in 2017, with ten (10.0 net) wells coming on stream during the first nine months. The completion of these wells has re-established production levels to the capacity of the Company-owned infrastructure of 60 to 65 MMcf/d plus associated liquids. With continuance of the drilling program, this level is anticipated to be maintained for the remainder of 2017, with actual production levels subject to firm transportation outages and voluntary shut-ins.

During the third quarter, industry transportation maintenance activities restricted available capacity, and temporarily depressed natural gas sales prices at AECO. In response, Perpetual strategically shut-in an average 450 boe/d of production at East Edson during the quarter to take advantage of temporary situations when natural gas could be purchased at nominal cost and delivered against pre-sold volume commitments, resulting in a $0.6 million increase in realized revenue ($0.59 boe/d), while retaining reserves and deliverability capability for future production.

Crude oil production in Eastern Alberta was 7% lower than the prior year period, as minimal capital was allocated to the area in the second and third quarters of 2017. The Company continues to see positive response from waterflood activities in several pools, mitigating production declines by restoring pressure support.

Commodity Prices

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	**2017**	2016
Reference prices				
AECO Monthly Index (*$/GJ*)	**1.93**	2.09	**2.45**	1.76
AECO Monthly Index ($/Mcf)[1]	**2.04**	2.22	**2.58**	1.86
AECO Daily Index (*$/GJ*)	**1.38**	2.20	**2.19**	1.75
AECO Daily Index ($/Mcf)[1]	**1.46**	2.33	**2.31**	1.85
Alberta Gas Reference Price (*$/GJ*)[2]	**1.58**	1.90	**2.15**	1.59
West Texas Intermediate ("WTI") light oil (*$USD/bbl*)	**48.20**	44.94	**49.47**	41.33
Western Canadian Select ("WCS") differential (*$USD/bbl*)	**(9.94)**	(13.50)	**(11.88)**	(13.68)
WTI and WCS combined fixed price (*$CAD/bbl*)[3]	**47.83**	41.19	**49.24**	36.50
Average Perpetual prices				
Natural gas				
Realized price (*$/Mcf*)[4]	**3.11**	2.12	**3.65**	2.42
Percent of AECO Monthly Index	**152**	95	**141**	130
Oil (*$/bbl*)[4]	**43.01**	38.90	**39.86**	37.21
Natural gas liquids ("NGL") (*$/bbl*)	**39.06**	35.80	**43.59**	32.72

(1) Converted from $/GJ using a standard conversion rate of 1.06 GJ:1 Mcf.
(2) Alberta Gas Reference Price is the price used to calculate Alberta Crown royalties.
(3) Derived internally using the Bank of Canada average $USD to $CAD foreign exchange rate of 1.25 for the three months ended September 30, 2017 (Q3 2016 – 1.31) and 1.31 for the nine months ended September 30, 2017 (2016 – 1.32).
(4) Realized natural gas and oil prices includes physical forward sales contracts for which delivery was made during the reporting period and realized gains and losses on financial derivatives. Realized gains and losses from foreign exchange contracts are excluded.

AECO Monthly Index price averaged $1.93/GJ in the third quarter of 2017, 8% lower than $2.09/GJ for the same period in 2016, despite $USD Nymex prices being 6% higher for Q3 2017 vs Q3 2016. AECO basis weakened considerably in the third quarter of 2017 as a result of a change in methodology followed by TransCanada during NGTL maintenance. The change in methodology restricted both exports out of the province as well as injections into a number of storage facilities on the NGTL system. The result was over pressuring of the pipeline system which caused daily spot prices to plummet during maintenance periods.

WTI oil price of $USD48.20/bbl for the third quarter of 2017 was 7% higher than the Q3 2016 price of $USD44.94/bbl due to the continued rally in oil prices subsequent to OPEC's November 30, 2016 announcement to cut 1.2 million barrels per day of oil production, along with an additional cut from select non-OPEC producers of up to 0.6 million barrels per day, that began in January 2017, offset by a recent resurgence of United States shale production.

Price optimization strategies applied to prompt month physical settlements and the temporary shut in of East Edson production previously described, contributed to an improved realized price of $3.11/Mcf for the third quarter of 2017, up 47% from $2.12/Mcf for the same period in 2016 and 52% higher than the third quarter AECO Monthly Index price of $2.04/Mcf. The Corporation's third quarter 2017 realized natural gas price includes $1.0 million ($0.17/Mcf) of realized gains on natural gas fixed price contracts. During the third quarter of 2017, the average conversion ratio for Perpetual's natural gas production was 1.17 GJ:1 Mcf, compared to 1.12 GJ:1 Mcf in the comparative third quarter of 2016. This increase reflects the larger percentage of total gas production from East Edson, which yields higher heat content gas compared to Perpetual's other production areas, and also contributed to higher realized natural gas prices in the third quarter.

Perpetual's 2017 third quarter oil price, including derivatives, of $43.01/bbl increased 11% compared to the same period in 2016, due primarily to the 16% increase in WCS pricing. The increase in the average WCS price was primarily driven by higher benchmark WTI prices and lower WCS differentials compared to the prior year period. Included in Perpetual's average oil price are deductions for quality adjustments, loss allowance, terminal fees, and diluent blending fees. In the third quarter of 2017, these deductions averaged $3.24/bbl (Q3 2016 - $3.74/bbl). Also included in Perpetual's realized oil price of $43.01/bbl were losses of $0.3 million ($0.33/bbl) recorded on financial crude oil derivative contracts for the WCS differential.

Perpetual's realized average NGL price for the third quarter of 2017 was $39.06/bbl, up 9% from the third quarter of 2016, reflecting an increase in all NGL component prices as US inventory levels are on pace to end the summer injection period under the 5 year average due to increasing exports from the United States to Asia and Europe. Perpetual's average NGL sales composition for the third quarter ended September 30, 2017 consisted of 61% condensate, a decrease from the prior year period (Q3 2016 – 68%).

In order to protect a base level of adjusted funds flow, Perpetual has commodity price contracts in place for the remainder of 2017 on an estimated 42% of forecast production for the remainder of the year. These include a combination of forward month physical and financial natural gas contracts at AECO hub on a net 27,500 GJ/d to December 2017 at an average price of $3.16/GJ and 12,500 GJ/d for November 2017 through March 2018 at an average price of $2.94/GJ. Contracts have been entered into to fix the WCS differential on 500 bbls/d for the first quarter of 2018 at an average $USD13.65/bbl and the second quarter of 2018 at an average $USD14.45/bbl.

During the third quarter, Perpetual diversified its natural gas price exposure from AECO by entering into arrangements to sell 34.1 MMcf/d priced using a basket of five North American natural gas hub pricing points for a five year period commencing November 1, 2017 (39.0 MMcf/d commencing April 1, 2018). After giving effect to these arrangements, Perpetual's estimated 2018 commodity price exposure (net of royalties) is as follows:

Market/Pricing Point	**Estimated 2018 Exposure**
Natural gas	
AECO[1]	26%
AECO fixed price	5%
Empress	5%
Dawn	11%
Michcon	7%
Chicago	17%
Malin	15%
Total natural gas	86%
Natural gas liquids – Condensate[1]	3%
Natural gas liquids – Other [1]	2%
Crude oil[1]	9%
Total	100%

(1) Net of royalties.

Revenue

	Three months ended September 30,		Nine months ended September 30,	
($ thousands, except as noted)	**2017**	2016	**2017**	2016
Petroleum and natural gas revenue				
Natural gas[1]	**13,205**	16,935	**38,435**	47,630
Oil[1]	**4,186**	3,766	**12,017**	9,882
NGL	**2,635**	1,567	**7,460**	5,951
Total petroleum and natural gas revenue	**20,026**	22,268	**57,912**	63,463
Realized gains on derivatives	**665**	(2,632)	**1,574**	8,945
Realized revenue	**20,691**	19,636	**59,486**	72,408
Unrealized gains (losses) on derivatives	**(96)**	6,179	**4,279**	7,701
Total revenue	**20,595**	25,815	**63,765**	80,109
Realized revenue *($/boe)*	**21.77**	15.11	**23.58**	16.37
Total revenue *($/boe)*	**21.67**	19.87	**25.28**	18.11

(1) Includes revenues related to physical forward sales contracts which settled during the period.

Perpetual's petroleum and natural gas ("P&NG") revenue, before derivatives, for the three months ended September 30, 2017 of $20.0 million decreased 10% from 2016, due primarily to a 27% decrease in average daily production which more than offset the increase in Perpetual's average realized price.

Natural gas revenue, before derivatives, of $13.2 million in the third quarter of 2017, decreased 22% from $16.9 million in 2016, reflecting the 31% drop in production volumes attributable to the Shallow Gas Disposition. Natural gas revenue represented 66% of total petroleum and natural gas revenue in the third quarter of 2017 (Q3 2016 – 76%), despite reflecting 84% of average production.

Third quarter 2017 oil revenues of $4.2 million were 11% higher than the same period in 2016 ($3.8 million), due primarily to higher crude oil prices.

NGL revenue for the third quarter of 2017 of $2.6 million was 68% higher than the same period in 2016 ($1.6 million) due to higher NGL prices and a 54% increase in daily production volumes attributable to the 2017 drilling program at East Edson.

Realized gains on derivatives totaled $0.7 million in the third quarter of 2017 compared to losses of $2.6 million in the same period of 2016. Total gains in the current period were comprised of $1.0 million on natural gas derivatives, offset by losses of $0.3 million from oil derivatives.

Perpetual recorded unrealized losses on derivatives of $0.1 million during the third quarter of 2017 compared to unrealized gains of $6.2 million for the same period in 2016. Unrealized gains and losses represent the change in mark to market value of derivative contracts as forward commodity prices and foreign exchange rates change. Unrealized gains and losses on derivatives are excluded from the Corporation's calculation of cash flow from operating activities and adjusted funds flow as they are non-cash. Derivative gains and losses vary depending on the nature and extent of derivative contracts in place. Commodity price management contracts are actively managed in accordance with the Corporation's assessment of commodity price risk, committed capital spending and other factors.

Royalties

(*$ thousands, except as noted*)	Three months ended September 30, 2017	2016	Nine months ended September 30, 2017	2016
Crown	**574**	339	**1,806**	1,161
Freehold and overriding[(1)]	**2,040**	1,878	**7,516**	5,184
Total	**2,614**	2,217	**9,322**	6,345
Crown (*% of P&NG revenue*)	**2.9**	1.5	**3.1**	1.8
Freehold and overriding (*% of P&NG revenue*)	**10.2**	8.4	**13.0**	8.2
Total (*% of P&NG revenue*)	**13.1**	9.9	**16.1**	10.0
$/boe	**2.75**	1.71	**3.70**	1.43

(1) Includes $1.2 million in gross overriding royalty payments at East Edson ("East Edson GORR") for the three months ended September 30, 2017 (2016 – $1.2 million) and $5.3 million for the nine months ended September 30, 2017 (2016 - $3.6 million).

Royalty expenses for the quarter ended September 30, 2017 were $2.6 million, representing an increase in the effective combined average royalty rate on P&NG revenue to 13.1% from 9.9% in the third quarter of 2016. Average crown royalty rates increased to 2.9% in the third quarter of 2017 compared to 1.5% in the third quarter of 2016 as a result of the disposition of lower net royalty assets through the Shallow Gas Disposition combined with higher oil prices.

Freehold and overriding royalty rates increased from 8.4% in the third quarter of 2016 to 10.2% in the 2017 period, reflecting reduced total revenue following the Shallow Gas Disposition in 2016, leaving a larger percentage of total production sourced from East Edson wells in the third quarter of 2017. Excluding royalty payments of $1.2 million under the East Edson overriding royalty arrangement (Q3 2016 - $1.2 million), the effective freehold and overriding royalty rate for the three months ended September 30, 2017 was 4.0% compared to 2.8% for the prior year period.

Pursuant to Perpetual's East Edson agreements, the partner is entitled to a gross overriding royalty equivalent to a maximum of 5.6 MMcf/d of natural gas from the East Edson property plus oil and associated NGLs on a monthly basis. The East Edson royalty is calculated based on the AECO daily index natural gas price.

Royalty expenses were $2.75/boe in the third quarter, down 36% from the second quarter due to a 48% decrease in the AECO daily index natural gas price combined with the impact of the 17% increase in production at East Edson on the fixed volume East Edson royalty. The East Edson royalty is expected to continue to decrease on a unit of production basis as production volumes increase due to its fixed volume nature.

Production and operating expenses

(*$ thousands, except as noted*)	Three months ended September 30, 2017	2016	Nine months ended September 30, 2017	2016
Production and operating expenses	**3,326**	9,566	**12,561**	33,415
$/boe	**3.50**	7.36	**4.98**	7.55

Total production and operating expenses decreased 65% to $3.3 million during the third quarter of 2017 compared to $9.6 million recorded during the same period in 2016. This decrease reflected the impact of the Shallow Gas Disposition, continued diligent cost management, and $0.9 million ($0.95/boe) of non-recurring adjustments associated with third party processing facilities that were sold as part of the Shallow Gas Disposition. When excluding the $0.95/boe impact of non-recurring adjustments, third quarter operating costs on a unit of production basis were $4.45/boe, down 19% from the second quarter of 2017. Operating costs per unit of production at East Edson averaged $2.42/boe, and are expected to continue to decrease due to the impact of increased production on a substantially fixed operating cost base.

Transportation costs

(*$ thousands, except as noted*)	Three months ended September 30, 2017	2016	Nine months ended September 30, 2017	2016
Transportation costs	**1,331**	2,343	**3,572**	6,956
$/boe	**1.40**	1.80	**1.42**	1.57

Transportation costs include clean oil trucking and NGL transportation as well as costs to transport natural gas from the plant gate to commercial sales points. Consistent with the decrease in period-over-period production, transportation costs decreased 43% to $1.3 million from $2.3 million for the same period in 2016, reflecting lower rates on clean oil trucking and a higher percentage of production from West Central Alberta where transport tolls are lower than Eastern Alberta.

Gas over bitumen

($ thousands, except as noted)	Three months ended September 30, 2017	2016	Nine months ended September 30, 2017	2016
Gas over bitumen revenue	**353**	548	**1,965**	1,288
Payments on gas over bitumen royalty financing[1]	**(558)**	(482)	**(2,084)**	(1,438)
Gas over bitumen, net of payments	**(205)**	66	**(119)**	(150)
$/boe	**(0.22)**	0.05	**(0.05)**	(0.03)

(1) At September 30, 2017, the fair value of the gas over bitumen royalty financing was estimated to be $ 4.4 million (December 31, 2016 - $8.3 million).

Perpetual records revenue in relation to gas over bitumen royalty credits received under the Natural Gas Royalty Regulation for natural gas wells which have been shut-in pursuant to shut-in orders issued by the Government of Alberta. During the three months ended September 30, 2017, Perpetual recorded $0.4 million in gas over bitumen revenue, a decrease of $0.2 million from the same period in 2016 attributable to the lower Alberta gas reference prices in addition to the annual 10% decline in deemed production.

Gas over bitumen royalty credits earned in the third quarter of 2017 funded payments of $0.6 million (Q3 2016 – $0.5 million) in relation to the 2014 monetization of Perpetual's future gas over bitumen royalty credits. As part of the arrangement, Perpetual makes monthly payments to the purchaser, which from time to time will vary from the actual gas over bitumen credit received in the period due to timing differences. The monthly payment commitment expires concurrent with the gas over bitumen credit, with final expiries expected to occur in June 2021.

Under IFRS, the monetization of future gas over bitumen royalty credits was recorded as a financial obligation ("Gas over bitumen royalty financing"); however, entitlement to future revenue from gas over bitumen royalty adjustments are not recorded as an asset, but as revenue with the passage of time as it is earned. As such, gas over bitumen revenue will continue to be recognized separately as revenue in accordance with Perpetual's accounting policies with the monthly payments recognized separately as a reduction to the gas over bitumen royalty financing obligation. For purposes of this MD&A, the monthly payments have been included as a reduction to gas over bitumen revenue to reflect the substantive monetization of the future gas over bitumen royalty adjustments. During the third quarter of 2017, the gas over bitumen royalty financing obligation was reduced by $1.2 million, comprised of payments of $0.6 million and an unrealized gain of $0.6 million. The gain has been included in non-cash finance expense and represents a decrease in the fair value of the gas over bitumen royalty financing obligation as a result of lower forecasted natural gas reference prices.

Exploration and evaluation ("E&E")

($ thousands)	Three months ended September 30, 2017	2016	Nine months ended September 30, 2017	2016
Lease rentals	**178**	384	**547**	1,464
Geological and geophysical costs[1]	**–**	–	**(22)**	26
Lease expiries	**784**	1,377	**2,602**	2,717
Total exploration and evaluation	**962**	1,761	**3,127**	4,207

(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 for the purposes of this MD&A.

E&E costs include lease rentals on undeveloped acreage, geological and geophysical costs and the write down of carrying costs related to lease expiries. E&E costs of $1.0 million during the three months ended September 30, 2017 were 45% lower than the same period in 2016 due to fewer lease expiries and lower lease rental costs following the Shallow Gas Disposition.

General and administrative ("G&A") expenses

($ thousands, except as noted)	Three months ended September 30, 2017	2016	Nine months ended September 30, 2017	2016
Cash G&A expense	**3,912**	4,762	**11,670**	16,725
Overhead recoveries	**(1,062)**	(934)	**(2,577)**	(3,227)
Total G&A expense	**2,850**	3,828	**9,093**	13,498
Total G&A expense *($/boe)*	**3.00**	2.95	**3.60**	3.05

Total G&A expense decreased 26% to $2.9 million in the third quarter of 2017 from $3.8 million in the comparative period. This decrease reflects reductions in staffing levels and office space following the Shallow Gas Disposition along with savings related to on-going cost saving initiatives implemented by the Corporation. Overhead recoveries have increased 14% from the comparative period in 2016 due to increased capital spending compared to the prior year period.

Share based compensation expenses

($ thousands, except as noted)	Three months ended September 30, 2017	2016	Nine months ended September 30, 2017	2016
Share based compensation expense (non-cash)	**906**	2,073	**3,423**	4,431
Share based compensation expense (non-cash) *($/boe)*	**0.95**	1.60	**1.36**	1.00

Non-cash share based compensation expense for the three months ended September 30, 2017 decreased $1.2 million compared to the same period in 2016. This decrease was the result of reductions in staffing levels following the Shallow Gas Disposition.

Dispositions

Proceeds on dispositions

	Three months ended September 30,		Nine months ended September 30,	
(*$ thousands*)	**2017**	2016	**2017**	2016
Proceeds on dispositions of oil and gas properties	**494**	1,000	**930**	7,768
Proceeds on retained shallow gas marketing arrangements	**–**	–	**869**	–
Payments on fixed portion of retained shallow gas marketing arrangements	**(950)**	–	**(2,819)**	–
Net proceeds (payments) on dispositions	**(456)**	1,000	**(1,020)**	7,768

The Shallow Gas Disposition which closed October 1, 2016 included retained marketing arrangements whereby the Company provided floor price protection at $2.58/GJ to the purchaser and retained price participation to the extent average monthly AECO natural gas prices exceed $2.81/GJ on 33,611 GJ/d through to August 31, 2018. The Company entered into marketing arrangements prior to closing to fix the cost of the floor price protection through to March 31, 2018. During the three months ended September 30, 2017, payments of $0.9 million were recorded as a reduction to this liability. The liability is settled monthly through physical marketing contracts at a rate equal to $0.295 GJ/d on 35,000 GJ/d.

Realized and unrealized gains and losses on these marketing arrangements are recognized as adjustments to gains/losses on dispositions and included as cash flows from investing activities on the consolidated statement of cash flows.

Loss (gain) on dispositions

	Three months ended September 30,		Nine months ended September 30,	
(*$ thousands*)	**2017**	2016	**2017**	2016
Realized gain on retained shallow gas marketing arrangements	**–**	–	**(869)**	–
Unrealized loss on retained shallow gas marketing arrangements	**2,072**	–	**6,592**	–
	2,072	–	**5,723**	–
Gains on oil and gas property dispositions	**(494)**	(290)	**(922)**	(8,265)
Loss (gain) on dispositions	**1,578**	(290)	**4,801**	(8,265)

During the third quarter of 2017, Perpetual recorded unrealized losses of $2.1 million with respect to retained marketing arrangements. The unrealized loss is the result of mark to market adjustments resulting from declining forward AECO monthly prices.

The realized gain on retained marketing arrangements for the nine months ended September 30, 2017 of $0.9 million relates to proceeds received during the first quarter of 2017 where AECO monthly prices exceeded $2.81/GJ on 33,611 GJ/d in addition to proceeds received in the second quarter as consideration for increasing the $2.81/GJ price to $3.50/GJ on 10,000 GJ/d for the period of November 1, 2017 to March 31, 2018.

As at September 30, 2017, the net retained shallow gas marketing arrangements are summarized as follows:

Term	**Volumes at AECO (GJ/d)**	**Floor price (*$/GJ*)**	**Ceiling price (*$/GJ*)**	**Fair value[1] (*$ thousands*)**
October 2017 – August 2018	33,611	–	2.81	425
November 2017 – March 2018	(10,000)	–	(2.81)	(103)
November 2017 – March 2018	10,000	–	3.50	19
April 2018 – August 2018	33,611	2.58	–	(3,124)

(1) As at September 30, 2017.

Depletion and depreciation

	Three months ended September 30,		Nine months ended September 30,	
(*$ thousands, except as noted*)	**2017**	2016	**2017**	2016
Depletion and depreciation	**8,967**	13,676	**24,021**	47,369
$/boe	**9.44**	10.53	**9.52**	10.71

Perpetual recorded depletion and depreciation expense of $9.0 million for the three months ended September 30, 2017 (Q3 2016 - $13.7 million). The reduction is due primarily to lower production following the Shallow Gas Disposition. On a per boe basis, third quarter 2017 depletion and depreciation expense of $9.44/boe was 10% lower than the comparative period, mainly due to a reduction in estimated future development costs from the Shallow Gas Disposition properties. On a unit of production basis, third quarter depletion and depreciation expense was consistent with the second quarter of 2017 ($9.45/boe).

Finance expenses

	Three months ended September 30,		Nine months ended September 30,	
(*$ thousands*)	**2017**	2016	**2017**	2016
Cash interest				
Interest on revolving bank debt	**380**	498	**764**	2,620
Interest on TOU share margin loans	**159**	–	**460**	–
Interest on term loan	**695**	–	**1,549**	–
Interest on senior notes	**764**	1,325	**3,043**	10,617
Total cash interest	**1,998**	1,823	**5,816**	13,237
Non-cash finance expense				
Amortization of debt issue costs	**139**	54	**422**	453
Accretion on decommissioning obligations	**185**	730	**571**	2,465
Change in fair value of gas over bitumen royalty financing	**(653)**	(238)	**(1,859)**	(582)
Change in fair value of TOU share put option margin loans	**(48)**	461	**1,377**	4,564
Non-cash finance expenses	**(377)**	2,007	**511**	6,900
Finance expenses recognized in net income (loss)	**1,621**	3,830	**6,327**	20,137

Total cash interest expense of $2.0 million for the three months ended September 30, 2017 was 9% higher than the prior year period (Q3 2016 - $1.8 million), due primarily to increased debt outstanding related to capital spending in excess of adjusted funds flow to drive production growth, partially offset by lower bank borrowing costs. Decreased cash interest on senior notes is due to the early repayment of $27.1 million of 8.75% 2018 Senior Notes on April 17, 2017. This reduction in cash interest expense was offset by $0.7 million in interest charged on the 8.1% $35 million Term Loan that was drawn on March 14, 2017, as well as interest on borrowings under the expanded Credit Facility and the new TOU share margin loan.

Non-cash finance expenses for the three months ended September 30, 2017 included accretion on decommissioning obligations of $0.2 million (Q3 2016 - $0.7 million), a gain of $0.6 million on the change in fair value of the gas over bitumen royalty financing (Q3 2016 – gain of $0.2 million) and a gain of $0.1 million on the change in fair value of the TOU share margin loans (Q3 2016 – loss of $1.5 million). Accretion on decommissioning obligations was $0.5 million lower than in the prior year period due to the $128.0 million reduction in decommissioning obligations associated with the Shallow Gas Disposition.

Change in fair value of TOU share investment

During the three months ended September 30, 2017, Perpetual recorded a loss of $4.2 million related to the change in fair value of the TOU share investment. This change was due to the 9% decline in the TOU share price over the third quarter. At September 30, 2017, the Company owned 1.67 million TOU shares (September 30, 2016 – 1.85 million shares). In the third quarter of 2016, a gain of $2.8 million was recorded, reflecting the 4% increase in the TOU share price during that period.

LIQUIDITY AND CAPTIAL RESOURCES

Perpetual's strategy includes maintaining a strong capital base so as to retain investor, creditor and market confidence to support the execution of its business plans. The Company manages its capital structure and makes adjustments to its capital spending in light of changes in economic conditions and the risk characteristics of its underlying oil and natural gas assets. The Company considers its capital structure to include share capital, senior notes, revolving bank debt, Term Loan, TOU share margin loans and net working capital, with value and liquidity enhanced through the current ownership of TOU shares. In order to manage its capital structure, the Company may from time to time issue equity or debt securities, enter into business transactions including the sale of its TOU shares or other assets and adjust its capital spending to manage current and projected debt levels.

During the nine months ended September 30, 2017, the Company completed a number of financing transactions to strengthen Perpetual's liquidity and debt repayment profile and secure funding for the Company's 2017 and 2018 business plan. The significant financing transactions are as follows:

- Exchange of $17.4 million aggregate principal amount of its existing senior notes maturing in 2018 and 2019 for new 8.75% senior notes having an extended maturity date of January 23, 2022 (the "2022 Senior Notes"). The remaining $27.6 million senior notes maturing in 2018 were redeemed with repayment of $27.1 million in cash and $0.5 million through an exchange for new 2022 Senior Notes;
- Establishment of the Term Loan with total availability of $45 million bearing annual interest at 8.1% and maturing March 14, 2021. In addition, for no additional consideration, 5.4 million warrants were issued and valued at $0.8 million which entitle the lender to acquire common shares on a one for one basis for a period of up to three years, at an exercise price of $2.34 per share. The initial draw on the Term Loan was $35 million with the second and final draw of $10 million occurring on October 5, 2017;
- Issuance of 5.1 million common shares and 1.1 million additional warrants for aggregate gross proceeds of $9 million;
- Two borrowing base increases to the Company's reserve based Credit Facility comprised of a $14 million increase in March of 2017 and a $20 million increase in July 2017 to a total borrowing capacity of $40 million. Also included was the release of $2 million in restricted cash. The maturity date was extended to May 31, 2019; and
- Establishment of a new $18.7 million margin loan secured by 1.67 million TOU shares that matures in July 2018. Proceeds on the new margin loan along with borrowings under the Credit Facility were used to repay the $36.5 million TOU share put option margin loans that were scheduled to mature in August and November of 2017. Proceeds of $1.0 million were realized from the sale of underlying put options.

Perpetual is currently in discussions with its Credit Facility lenders regarding the redetermination of its borrowing limit prior to November 30, 2017, and anticipates an increase to the Credit Facility borrowing base.

These financing transactions provide the Company with enhanced optionality and flexibility to manage near term obligations while at the same time, creating opportunities to continue pursuing exploration and development projects. The Company will continue to regularly assess changes to its capital structure and repayment alternatives, with considerations for both short term liquidity and longer term financial sustainability.

Capital Management

(*$ thousands, except as noted*)	**September 30, 2017**	December 31, 2016
Revolving bank debt	**29,262**	–
Term loan, measured at principal amount	**35,000**	–
TOU share margin loans, measured at principal amount	**18,740**	39,953
Senior notes, measured at principal amount	**32,490**	60,573
Carrying amount of TOU share investment[1]	**(42,304)**	(66,343)
Adjusted working capital deficiency[2]	**19,556**	3,917
Net debt[2]	**92,744**	38,100
Shares outstanding at end of period (*thousands*)[3]	**59,316**	53,421
Market price at end of period (*$/share*)	**1.34**	2.35
Market value of shares	**79,483**	125,539
Total capitalization[2]	**172,227**	163,639
Net debt as a percentage of total capitalization	**54**	23
Trailing twelve months adjusted funds flow[2]	**21,878**	920

(1) The carrying amount of the TOU share investment is based on the September 30, 2017 closing price per the Toronto Stock Exchange ($25.37 per share) and 1.67 million TOU shares held (December 31, 2016 – 1.85 million TOU shares held with a closing price of $35.91 per share).
(2) See "Non-GAAP measures" in this MD&A.
(3) All common shares are presented net of shares held in trust.

At September 30, 2017, Perpetual had total net debt of $92.7 million, up $54.6 million from December 31, 2016. The increase reflects the ramp up in capital investment during the year combined with a decrease of $24.0 million in the fair value of TOU shares.

Revolving Bank Debt

As at September 30, 2017, the Company's Credit Facility had a borrowing limit (the "Borrowing Limit") of $40.0 million (December 31, 2016 - $6.0 million) under which $29.3 million was drawn (December 31, 2016 – nil). Additionally, $4.0 million of letters of credit had been issued under the Credit Facility (December 31, 2016 - $4.0 million). Borrowings under the Credit Facility bear interest at its lenders' prime rate or Banker's Acceptance rates, plus applicable margins and standby fees. The applicable Banker's Acceptance margins range between 2.0% and 4.5%.

The maturity date of the Credit Facility is May 31, 2018 and may be extended for a further 364 day period subject to approval by the syndicate. If not extended the Credit Facility will cease to revolve and all outstanding advances will be repayable on May 31, 2019. The next Borrowing Limit redetermination is scheduled on or prior to November 30, 2017.

Borrowings are secured by general security agreements covering all of the Company's assets with the exception of TOU shares pledged as security for the TOU share margin loans and certain lands pledged to the gas over bitumen royalty financing counterparty.

For the periods ended September 30, 2017 and 2016, if interest rates changed by 1% with all other variables held constant, the annual impact on interest expense and net income (loss) would be $0.3 million (2016 – $0.1 million).

Prior to the July 4, 2017 Borrowing Limit redetermination, the Credit Facility was subject to a working capital covenant which required the Company to maintain net working capital plus outstanding letters of credit not exceeding the Borrowing Limit. Net working capital includes the sum of cash and cash equivalents, restricted cash, accounts receivable, prepaid expenses and unpledged TOU shares less accounts payable and accrued liabilities and accrued interest on senior notes and the Term Loan up to the Credit Facility maturity date. On July 4, 2017, as part of the Borrowing Limit redetermination, Perpetual's lenders removed this working capital covenant. The Credit Facility also contains provisions which restrict the Company's ability to pay dividends on or repurchase its common shares.

TOU share margin loans

At September 30, 2017, Perpetual had an $18.7 million TOU share margin loan secured by 1.67 million TOU shares that matures on July 31, 2018, representing a 40% lending ratio at the date of funding. Interest rates are indexed to the same applicable Banker's Acceptance margins as the Credit Facility, ranging between 1.5% and 4.0%. The Company is required to maintain a lending ratio of less than 55% based on the daily closing market value of the pledged TOU shares. As at September 30, 2017, the Company's margin loan was 44% of the closing market value of the pledged TOU shares.

Proceeds from this margin loan along with borrowings under its Credit Facility were used to repay the TOU share put option margin loans during the third quarter of 2017. Proceeds of $1.0 million were realized from the sale of underlying put options.

Prior to repayment, the TOU share put option margin loans were hybrid financial instruments comprising a debt host with an embedded TOU put option derivative related to indexation of the future settlement amount to changes in the market price of TOU shares pledged as collateral. The Company had designated the TOU share put option margin loans as financial liabilities which were measured at fair value through profit and loss. For the nine months ended September 30, 2017, an unrealized loss of $1.4 million (2016 - $4.6 million unrealized loss) is included in finance expense, representing the change in fair value of the TOU put options during the year. The new TOU share margin loan maturing on July 31, 2018 is designated as a financial liability measured at amortized cost.

Term Loan

On March 14, 2017, Perpetual entered into the Term Loan which included the issuance of 5.4 million warrants to purchase common shares.

	September 30, 2017
Balance, beginning of period	$ –
Principal amount of Term Loan issued	35,000
Value allocated to warrants	(769)
Issue costs	(1,329)
Amortization of issue costs	246
Balance, end of period	$ 33,148

The Term Loan matures on March 14, 2021 and bears interest at 8.1% per annum with semi-annual interest payments due June 30 and December 31 of each year. The Term Loan has a cross-default provision with the Credit Facility and contains substantially similar provisions and covenants as the Credit Facility.

The $45 million Term Loan consisted of an initial draw of $35 million completed upon closing, with the final $10 million drawn on October 5, 2017.

Amounts borrowed under the Term Loan that are repaid or prepaid are not available for re-borrowing. The Company may not prepay the Term Loan prior to the second anniversary thereof, except with payment of a make whole premium.

The Term Loan is secured by a general security agreement over all present and future property of the Company and its subsidiaries on a second priority basis, subordinate only to liens securing loans under the Credit Facility, TOU shares secured in favor of the TOU share margin loan lenders, and certain lands pledged to the gas over bitumen royalty financing counterparty.

Senior notes

			September 30, 2017		December 31, 2016	
	Maturity date	Interest rate	Principal	Carrying Amount	Principal	Carrying amount
2018 Senior Notes	March 15, 2018	8.75%	$ –	$ –	$ 36,013	$ 35,847
2019 Senior Notes	July 23, 2019	8.75%	14,572	14,463	24,560	24,273
2022 Senior Notes	January 23, 2022	8.75%(1)	17,918	17,210	–	–
			$ 32,490	$ 31,673	$ 60,573	$ 60,120

(1) Annual interest rate through to January 23, 2018 is 9.75% and 8.75% thereafter.

On January 23, 2017, the Company exchanged $8.4 million and $9.0 million aggregate principal amount of 2018 Senior Notes and 2019 Senior Notes respectively for $17.4 million new 8.75% senior notes with a maturity date of January 23, 2022. Included in the exchange were $3.7 million 2018 Senior Notes and $4.3 million 2019 Senior Notes held by directors and officers of the Company or entities controlled by them. The 2022 Senior Notes bear a fixed rate of 9.75% for the first year of issuance and 8.75% thereafter, and have identical covenants and rights as the existing 2018 and 2019 Senior Notes.

On April 17, 2017, Perpetual completed the early redemption of $27.1 million aggregate principal amount of its 8.75% senior notes which were due to mature on March 15, 2018 and exchanged the remaining $0.5 million for an equal amount of 2022 Senior Notes. In mid-July, $1.0 million face value of 2019 Senior Notes were re-purchased at 96.75% of face value and cancelled.

The senior notes are direct senior unsecured obligations of the Company, ranking pari passu with all other present and future unsecured and unsubordinated indebtedness of the Company. At any time prior to three years before the senior note maturity date, the Company can redeem up to 35% of the principal amount of the senior notes at a premium to face value. Within three years of maturity, the Company may redeem up to 100% of the senior notes at a premium to face value. Within one year of maturity, the Company may redeem up to 100% of the senior notes at the principal amount.

The senior notes have a cross-default provision with the Company's Credit Facility. In addition, the senior notes indenture contains restrictions on certain payments including dividends, retirement of subordinated debt and stock repurchases. The permitted amount of any restricted payment is limited to:

i) To the extent the Company's Consolidated Debt (defined as the sum of the period end balance of revolving bank debt, Term Loan, TOU share margin loans and gas over bitumen royalty financing) to trailing twelve months income before interest, taxes, depletion and depreciation and non-cash items ("TTM EBITDA") is less than 3.0 to 1.0, (the "Consolidated Debt Ratio") the sum of 50% of TTM EBITDA from January 1, 2011 to the end of the most recently completed fiscal quarter plus 100% of the fair market value of any equity contributions made to the Company during that period less the sum of all restricted payments during that period; and

ii) To the extent the Company's Consolidated Debt Ratio is greater than or equal to 3.0 to 1.0 pro forma for the proposed restricted payment, $50 million plus 100% of the fair market value of any equity contributions made to the Company.

At September 30, 2017, the senior notes are presented net of $0.8 million in issue costs which are amortized using a weighted average effective interest rate of 9.6%.

The Company was in compliance with all debt obligation covenants at September 30, 2017.

Equity

At September 30, 2017, there were 59.3 million common shares outstanding which is net of 0.3 million shares held in trust for employee compensation programs. Basic and diluted weighted average shares outstanding for the three months ended September 30, 2017 were 59.2 million (September 30, 2016 – 52.3 million).

On March 14, 2017, in conjunction with the funding of the Term Loan, the lender received, for no additional consideration, warrants to purchase common shares of Perpetual at a ratio of 120 warrants for every $1,000 committed under the Term Loan, resulting in the issuance of 5.4 million warrants. Each warrant entitles the holder to acquire common shares on a one for one basis, at an exercise price equal to $2.34 per share at any time prior to March 14, 2020. Provided the volume weighted average trading price of the common shares is greater than the exercise price for 60 consecutive calendar days (subject to certain restrictions), Perpetual will have the option to require the warrant holder to exercise all or any portion of the warrants at any time thereafter.

Further, as part of the equity private placement concurrent with the issuance of the Term Loan, 5.1 million common shares and 1.1 million additional warrants were issued for proceeds of $9.0 million, of which $8.9 million has been allocated to share capital and $0.1 million to warrants. Directors and officers of Perpetual or entities controlled by them purchased 1.6 million common shares and 0.4 million warrants for proceeds of $2.9 million.

On November 6, 2017 there were 59.3 million common shares outstanding which is net of 0.3 million shares held in trust for employee compensation programs.

SUMMARY OF QUARTERLY RESULTS

($ thousands, except where noted)	**Q3 2017**	Q2 2017	Q1 2017	Q4 2016
Financial				
Oil and natural gas revenues	**20,026**	19,728	18,158	17,940
Cash flow from (used in) operating activities	**5,778**	4,728	(2,289)	4,740
Adjusted funds flow[1]	**8,199**	5,243	5,110	3,326
Per share – basic	**0.14**	0.09	0.09	0.06
Net income (loss)	**(8,082)**	(7,219)	(14,172)	20,379
Per share – basic	**(0.14)**	(0.12)	(0.26)	0.39
– diluted	**(0.14)**	(0.12)	(0.26)	0.37
Net capital expenditures				
Exploration and development and other	**25,392**	4,006	24,590	7,069
Geological and geophysical	**–**	(22)	–	(3)
Net payments (proceeds) on acquisitions and dispositions	**680**	609	163	1,785
Net capital expenditures	**26,072**	4,593	24,753	8,851
Common shares (*thousands*)				
Weighted average – basic	**59,152**	59,045	54,468	52,924
Weighted average – diluted	**59,152**	59,045	54,468	54,678
Operating				
Daily average production				
Natural gas (*MMcf/d*)	**51.8**	45.1	40.7	40.3
Oil (*bbl/d*)	**978**	1,049	877	936
NGL (*bbl/d*)	**733**	665	479	467
Total (*boe/d*)	**10,330**	9,223	8,143	8,118
Average prices				
Natural gas – including derivatives (*$/Mcf*)[2]	**3.11**	3.18	5.04	2.41
Oil – including derivatives (*$/bbl*)[2]	**43.01**	43.91	31.39	38.95
NGL (*$/bbl*)	**39.06**	44.28	49.70	46.99

(1) See "Non-GAAP measures" in this MD&A.
(2) Realized natural gas and oil prices includes physical forward sales contracts for which delivery was made during the reporting period and realized gains and losses on financial derivatives. Realized gains and losses from foreign exchange contracts are excluded.

($ thousands, except where noted)	Q3 2016	Q2 2016	Q1 2016	Q4 2015
Financial				
Oil and natural gas revenues	22,268	16,501	24,694	33,044
Cash flow from (used in) operating activities	(1,710)	(3,396)	(6,770)	11,980
Adjusted funds flow[1]	(602)	(1,852)	48	362
Per share – basic	(0.01)	(0.04)	0.00	0.05
Net income (loss)	(10,919)	64,925	32,764	(93,539)
Per share – basic	(0.21)	1.25	0.72	(12.34)
– diluted	(0.21)	1.23	0.70	(12.34)
Net capital expenditures				
Exploration and development and other	1,411	1,286	4,814	831
Geological and geophysical	–	11	15	(93)
Net payments (proceeds) on acquisitions and dispositions	(988)	(302)	(6,466)	3
Net capital expenditures	423	995	(1,637)	741
Common shares (*thousands*)[2]				
Weighted average – basic	52,253	52,140	45,573	7,582
Weighted average – diluted	52,253	52,904	47,022	7,582
Operating				
Daily average production				
Natural gas (*MMcf/d*)	75.5	85.2	98.2	105.1
Oil (*bbl/d*)	1,052	1,073	1,174	1,278
NGL (*bbl/d*)	476	682	836	866
Total (*boe/d*)	14,123	15,959	18,378	19,661
Average prices				
Natural gas (*$/Mcf*)[3]	2.12	1.85	3.15	2.92
Oil (*$/bbl*)[3]	38.90	39.17	33.90	39.81
NGL (*$/bbl*)	35.80	34.71	29.33	33.68

(1) See "Non-GAAP measures" in this MD&A.
(2) Common shares and per share amounts have been retroactively adjusted to reflect the consolidation of outstanding common shares on the basis of 20 common shares to one common share on March 24, 2016. All common shares are presented net of shares held in trust.
(3) Realized natural gas and oil prices includes physical forward sales contracts for which delivery was made during the reporting period and realized gains and losses on financial derivatives. Realized gains and losses from foreign exchange contracts are excluded.

Commodity price risk management

Perpetual's commodity price risk management strategy is focused on managing downside risk and increasing certainty in adjusted funds flow by mitigating the effect of commodity price volatility. Physical forward sales and financial derivatives are used to manage the balance sheet, 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 revenue. Additionally, the Company has diversified its natural gas price exposure from AECO by entering into arrangements to sell 35,000 MMBtu/d priced using a basket of five North American natural gas hub pricing points for a five year period commencing November 1, 2017.

The following tables provide a summary of commodity price management contracts outstanding at November 6, 2017.

Natural Gas

The Company has in place open physical and financial natural gas arrangements at AECO as summarized in the table below. Settlements on physical sales contracts are recognized in oil and natural gas revenue.

Term	Volumes sold (bought) at AECO (*GJ/d*)	Average price (*$/GJ*)[1]	Market prices (*$/GJ*)[2]	Type of contract
October 2017 – December 2017	22,500	3.14	2.00	Physical
October 2017 – December 2017	(2,500)	2.92	2.00	Physical
October 2017 – December 2017	7,500	3.16	2.00	Financial
November 2017 – March 2018	12,500	2.94	2.39	Physical

(1) Average price calculated using weighted average price for net open contracts.
(2) Market prices for October and November 2017 are based on settled AECO Monthly Index prices. Market prices for subsequent months are based on forward AECO Monthly Index prices as of market close on November 6, 2017.

The following table provides a summary of basis differential contracts between AECO and NYMEX trading:

Term	Volumes sold (bought) (MMBTU/d)	AECO-NYMEX differential ($USD/MMBTU)	Market prices ($USD/MMBTU)[1]	Type of contract
April 2019 - October 2019[1]	15,000	(1.10)	(1.13)	Financial

(1) Market prices are based on forward AECO-NYMEX differential prices as of market close on November 6, 2017.

Crude Oil

The Corporation had entered into financial oil sales arrangements in $USD as follows:

Term	Volumes (*bbl/d*)	Floor price (*$USD/bbl*)	Ceiling price (*$USD/bbl*)	Market prices (*$USD/bbl*)[1]	Type of contract
October 2017 – December 2017	250	50.00	61.50	55.47	Financial
October 2017 – December 2017	500	50.00	59.40	55.47	Financial
January 2018 – December 2018	250	50.00	58.40	56.20	Financial
January 2018 – December 2018	250	50.00	60.00	56.20	Financial

(1) Market prices for October are based on settled WTI oil prices. Market prices for subsequent months are based on forward WTI oil prices as of market close on November 6, 2017.

The following table provides a summary of basis differential contracts between WTI and WCS trading:

Term	Volumes (*bbl/d*)	WTI-WCS differential (*$USD/bbl*)[1]	Market prices (*$USD/bbl*)[2]	Type of contract
October 2017 – December 2017	500	(15.40)	(12.75)	Financial
October 2017 – December 2017	250	(14.85)	(12.75)	Financial
January 2018 – March 2018	500	(13.65)	(15.60)	Financial
April 2018 – June 2018	500	(14.45)	(15.20)	Financial

(1) Average price calculated using weighted average price for net open contracts; contracts settle at WTI index less a fixed basis amount.
(2) Market prices for October and November 2017 are based on settled WTI-WCS differential prices. Market prices for subsequent months are based on forward WTI-WCS differential prices as of market close on November 6, 2017.

OFF BALANCE SHEET ARRANGEMENTS

Perpetual has no off balance sheet arrangements.

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, 2016. The Company continues to evaluate these standards and their potential impacts.

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.

INTERNAL CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

There were no changes in the Corporation's internal control over financial reporting during the period beginning on July 1, 2017 and ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

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.

Adjusted funds flow: Management uses adjusted funds flow and adjusted funds flow per share to analyze operating performance and leverage. Adjusted funds flow is cash flow from operating activities before changes in non-cash working capital, settlement of decommissioning obligations and certain E&E costs, but after payments on the gas over bitumen royalty financing and payments on restructuring costs. Adjusted funds flow is not intended to represent cash flow from operating activities, net earnings or other measures of financial performance calculated in accordance with IFRS. The Corporation previously referred to adjusted funds flow as "funds flow".

Operating netback: Perpetual considers operating netback an important performance measure as it demonstrates its profitability relative to current commodity prices. Operating netback is calculated by deducting royalties, operating costs, and transportation from realized revenue. Operating netback is also calculated on a per boe basis using average boe production for the period. Operating netback on a per boe basis can vary significantly for each of the Company's operating areas.

Realized revenue: Realized revenue includes oil and natural gas revenue, realized gains (losses) on financial natural gas, crude oil and foreign exchange contracts but excludes any realized gains (losses) resulting from contracts related to the Shallow Gas Disposition. Realized revenue, excluding foreign exchange contracts is used by management to calculate the Corporation's net realized commodity prices taking into account monthly settlements on financial crude oil and natural gas forward sales, collars and basis differentials. These contracts are put in place to protect Perpetual's adjusted funds flow from potential volatility in commodity prices, and as such, any related realized gains or losses are considered part of the Corporation's realized price.

Gas over bitumen revenue, net of payments: Gas over bitumen revenue, net of payments, includes gas over bitumen revenue less monthly payments on the gas over bitumen royalty financing. This is used by management to calculate the Corporation's net realized gas over bitumen revenue to reflect the substantive monetization of the future gas over bitumen royalty credits.

Adjusted working capital deficiency (surplus): Adjusted working capital deficiency (surplus) includes cash and cash equivalents, accounts receivable and prepaid expenses and deposits net of accounts payable and accrued liabilities.

Net debt: Net debt includes adjusted working capital deficiency (surplus), revolving bank debt and the principal amount of the TOU share margin loan, Term Loan and senior notes reduced for the mark to market value of TOU shares held. Net debt is used by management to analyze borrowing capacity.

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:1 bbl has been used, which is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In addition, utilizing a conversion on a 6 Mcf:1 bbl basis may be misleading as an indicator of value as the value ratio between 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. A conversion ratio of 0.975 Mcf:one million British Thermal Units ("MMBtu") has been used in this MD&A.

FORWARD-LOOKING INFORMATION AND STATEMENTS: Certain information and statements contained in this MD&A including management's assessment of future plans and operations and including the information contained under the heading "Outlook" may 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", "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 ("NGL") and oil; the existence, operations and strategy of the commodity price risk management program; the approximate amount of forward sales and financial contracts to be employed, and the value of financial forward natural gas, oil and other risk management contracts; net income and adjusted funds flow sensitivities to commodity price, production, foreign exchange and interest rate changes; operating, general and administrative ("G&A"), and other expenses; the expected impact of cost-saving initiatives on operating and G&A 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 expenditure program; expected compliance with credit facility and term loan covenants in 2017 and 2018; the retention of, and benefits to be received from holding the TOU shares (as defined above); expected book value and related tax value of the Corporation's assets and prospect inventory and estimates of net asset value; adjusted 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; future income tax and its effect on adjusted funds flow; intentions with respect to preservation of tax pools 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, 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 adjusted 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 neither the Corporation nor any of 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.