PERPETUAL ENERGY INC.
Condensed Interim Consolidated Statements of Financial Position

As at		March 31, 2018		December 31, 2017
(*Cdn$ thousands unaudited*)				
Assets				
Current assets				
Accounts receivable	**$**	**9,496**	$	14,069
Tourmaline Oil Corp. ("TOU") share investment (note 3)		**36,434**		37,985
Prepaid expenses and deposits		**722**		937
Fair value of derivatives (note 16)		**1,875**		1,585
		48,527		54,576
Fair value of derivatives (note 16)		**207**		1,506
Property, plant and equipment (note 4)		**267,715**		262,784
Exploration and evaluation (note 5)		**46,824**		46,704
Total assets	**$**	**363,273**	$	365,570
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**21,319**	$	31,410
Fair value of derivatives (note 16)		**9,028**		7,885
TOU share margin loan (note 7)		**15,929**		18,406
Gas over bitumen royalty financing		**992**		1,152
Provisions (note 11)		**1,792**		2,580
		49,060		61,433
Fair value of derivatives (note 16)		**119**		–
Revolving bank debt (note 8)		**46,912**		31,581
Term loan (note 9)		**43,353**		43,233
Senior notes (note 10)		**31,719**		31,680
Gas over bitumen royalty financing		**1,178**		1,587
Provisions (note 11)		**36,640**		36,105
Total liabilities		**208,981**		205,619
Equity				
Share capital (note 12)		**1,337,961**		1,336,838
Warrants (note 12)		**923**		923
Contributed surplus		**43,835**		44,152
Deficit		**(1,228,427)**		(1,221,962)
Total equity		**154,292**		159,951
Total liabilities and equity	**$**	**363,273**	$	365,570

Subsequent event (note 8).

See accompanying notes to the 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 Loss and Comprehensive Loss

(*Cdn$ thousands, except per share amounts unaudited*)	Three months ended March 31, **2018**		2017	
Revenue				
Oil and natural gas (note 14)	**$**	**23,340**	$	18,158
Royalties		**(3,063)**		(3,102)
		20,277		15,056
Change in fair value of derivatives (note 16)		**(1,635)**		3,993
Gas over bitumen royalty credit and other		**383**		925
		19,025		19,974
Expenses				
Production and operating		**4,772**		4,601
Transportation		**1,443**		1,015
Exploration and evaluation (note 5)		**170**		1,501
General and administrative		**3,311**		3,101
Share-based payments (note 13)		**806**		1,532
Loss on dispositions (note 4a)		**871**		2,191
Depletion and depreciation (note 4)		**10,124**		7,125
Loss from operating activities		**(2,472)**		(1,092)
Finance expenses (note 15)		**(2,442)**		(1,864)
Change in fair value of TOU share investment (note 3)		**(1,551)**		(11,216)
Net loss and comprehensive loss		**(6,465)**		(14,172)
Loss per share (note 12)				
Basic	**$**	**(0.11)**	$	(0.26)
Diluted	**$**	**(0.11)**	$	(0.26)

See accompanying notes to the condensed interim consolidated financial statements.

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

	Share capital (thousands)	Share capital ($thousands)	Warrants	Contributed surplus	Deficit	Total equity
(Cdn$ thousands unaudited)						
Balance at December 31, 2017	59,263	$ 1,336,838	$ 923	$ 44,152	$ (1,221,962)	$ 159,951
Net loss	–	–	–	–	(6,465)	(6,465)
Common shares issued (note 12)	472	905	–	(905)	–	–
Change in shares held in trust	112	218	–	(218)	–	–
Share-based payments	–	–	–	806	–	806
Balance at March 31, 2018	**59,847**	**$1,337,961**	**$ 923**	**$ 43,835**	**$ (1,228,427)**	**$ 154,292**

	Share capital (thousands)	Share capital ($thousands)	Warrants	Contributed surplus	Deficit	Total equity
(Cdn$ thousands unaudited)						
Balance at December 31, 2016	53,421	$ 1,325,705	$ –	$ 42,999	$ (1,185,991)	$ 182,713
Net loss	–	–	–	–	(14,172)	(14,172)
Common shares and warrants issued (note 12)	5,569	9,892	923	(1,101)	–	9,714
Share-based payments	–	–	–	1,532	–	1,532
Balance at March 31, 2017	**58,990**	**$ 1,335,597**	**$ 923**	**$ 43,430**	**$ (1,200,163)**	**$ 179,787**

See accompanying notes to the condensed interim consolidated financial statements.

PERPETUAL ENERGY INC.
Condensed Interim Consolidated Statements of Cash Flows

	Three months ended March 31, 2018	2017
(*Cdn$ thousands unaudited*)		
Cash flows from (used in) operating activities		
Net loss	**$ (6,465)**	$ (14,172)
Adjustments to add (deduct) non-cash items:		
Depletion and depreciation (note 4)	**10,124**	7,125
Exploration and evaluation (note 5)	**–**	1,313
Share-based payments	**806**	1,532
Unrealized change in fair value of derivatives (note 16)	**2,326**	(3,246)
Change in fair value of TOU share investment (note 3)	**1,551**	11,216
Loss on dispositions (note 4a)	**871**	2,191
Finance expenses (income) (note 15)	**327**	(33)
Expenditures on decommissioning obligations (note 11)	**(553)**	(563)
Payments of restructuring costs (note 11b)	**(185)**	(1,344)
Change in non-cash working capital	**2,396**	(6,308)
Net cash flows from (used in) operating activities	**11,198**	(2,289)
Cash flows from (used in) financing activities		
Change in revolving bank debt, net of issue costs	**15,286**	–
Change in TOU share margin loan, net of issue costs (note 7)	**(2,523)**	(5,835)
Change in term loan, net of issue costs (note 9)	**–**	33,728
Change in senior notes, net of issue costs	**–**	(344)
Change in gas over bitumen royalty financing	**(439)**	(816)
Common shares and warrants issued (note 12)	**–**	8,945
Change in non-cash working capital	**–**	(216)
Net cash flows from financing activities	**12,324**	35,462
Cash flows from (used in) investing activities		
Capital expenditures	**(14,897)**	(24,590)
Acquisitions	**–**	(208)
Net proceeds (payments) on dispositions (note 4a)	**(926)**	45
Proceeds on sale of TOU share investment (note 3)	**–**	5,687
Restricted cash	**–**	2,000
Change in non-cash working capital	**(7,699)**	19,247
Net cash flows from (used in) investing activities	**(23,522)**	2,181
Change in cash and cash equivalents	**–**	35,354
Cash and cash equivalents, beginning of period	**–**	2,877
Cash and cash equivalents, end of period	**$ –**	$ 38,231

See accompanying notes to the condensed interim consolidated financial statements.

1. REPORTING ENTITY

Perpetual Energy Inc. ("Perpetual" or the "Company") is a Canadian corporation engaged in the exploration, development and marketing of oil and natural gas based energy in Alberta, Canada. The Company operates a diversified asset portfolio that includes liquids-rich natural gas, shallow natural gas and conventional heavy oil producing properties, as well as undeveloped bitumen resource properties.

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

The condensed interim consolidated financial statements of the Company as at and for the three months ended March 31, 2018 are comprised of the accounts of the Company and its wholly owned subsidiaries: Perpetual 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 Company's consolidated financial statements as at and for the year ended December 31, 2017 which were prepared in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Except for the changes described below, 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, 2017 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 May 7, 2018.

a) Accounting pronouncements adopted

IFRS 9 "Financial Instruments"

Effective January 1, 2018, the Company adopted IFRS 9, "Financial Instruments", which replaced IAS 39, "Financial Instruments: Recognition and Measurement". The Company applied the new standard retrospectively and, in accordance with the transitional provisions, comparative figures have not been restated. The adoption of IFRS 9 did not have a material impact on the Company's condensed interim consolidated financial statements.

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). The previous IAS 39 categories of held to maturity, loans and receivables and available for sale have been eliminated. The classification of financial assets under IFRS 9 is generally based on the contractual cash flow characteristics and the Company's business model for managing the financial asset. Additionally, embedded derivatives are not separated if the host contract is a financial asset within the scope of IFRS 9. Instead, the entire hybrid contract is assessed for classification and measurement.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

i) The asset is held with the objective to collect contractual cash flows; and
ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet condition (ii) above that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets is subsequently measured at FVOCI. All other financial assets are subsequently measured at their fair values with changes in fair value recognized through profit and loss.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' ("ECL") model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments measured at FVOCI. Under IFRS 9, credit losses will be recognized earlier than under IAS 39.

The ECL model applies to the Company's receivables. As at March 31, 2018, the Company did not have any trade accounts receivable that were outstanding for more than 60 days. The average expected credit loss on the Company's trade accounts receivable was not significant as at March 31, 2018.

On January 1, 2018, the Company:

- Identified the business model used to manage its financial assets and classified its financial instruments into the appropriate IFRS 9 category; and
- Applied the ECL model to financial assets measured at amortized cost.

The classification and measurement of financial instruments under IFRS 9 did not result in any adjustment to the Company's opening retained earnings as at January 1, 2018. In addition, the application of the ECL model to financial assets classified as measured at amortized cost did not result in any adjustment on transition.

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 as at January 1, 2018 for each class of the Company's financial assets and financial liabilities. The Company has no contract assets or debt investments measured at FVOCI.

	Measurement Category	
Financial Instrument	**IAS 39**	**IFRS 9**
Accounts receivable	Loans and receivables at amortized cost	Amortized cost
TOU share investment	Financial assets at FVTPL	FVTPL
Accounts payable and accrued liabilities	Financial liabilities at amortized cost	Amortized cost
TOU share margin loan	Financial liabilities at amortized cost	Amortized cost
Revolving bank debt	Financial liabilities at amortized cost	Amortized cost
Term Loan	Financial liabilities at amortized cost	Amortized cost
Senior Notes	Financial liabilities at amortized cost	Amortized cost
Gas over bitumen royalty financing	Financial liabilities at FVTPL	FVTPL

In addition, IFRS 9 provides a hedge accounting model that is more in line with risk management activities. The Company does not currently apply hedge accounting to its derivative contracts nor does it intend to apply hedge accounting under IFRS 9 and as such, derivatives will continue to be FVTPL. In addition, the Company will continue to account for its forward physical delivery fixed-price sales contracts as derivative financial instruments.

IFRS 15 "Revenue from Contracts with Customers"

The Company adopted IFRS 15 "Revenue from Contracts with Customers" with a date of initial application of January 1, 2018 as detailed in Note 14, using the cumulative effect method. Under this method, prior years financial statements have not been restated and the cumulative effect on net loss of the application of IFRS 15 to revenue contracts in progress at January 1, 2018 is nil. The Company's management reviewed its revenue streams and major contracts with customers using the IFRS 15 five step model and there were no material changes to net loss or timing of oil and natural gas revenue recognized.

Under IFRS 15, revenue from the sale of commodities is calculated by reference to consideration specified in contracts with customers and recognized when control of the product is transferred to the buyer. The nature of each of its performance obligations, including roles of third parties and partners, are evaluated to determine if the Company acts as a principal, and therefore recognizes revenue on a gross basis, or as an agent, and therefore recognizes revenue on a net basis. The Company acts as the principal when it controls the product delivered before the control passes to its customer.

The Company earns revenue from its production and sale of, and royalty (and gross overriding royalty) interests in, crude oil, natural gas and natural gas liquids ("NGL's").

Revenue from the sale of crude oil, natural gas and NGLs is recognized based on the consideration specified in contracts with customers. The Company recognizes revenue when control of the product transfers to the buyer and collection is reasonable assured. This is generally at the point in time when the customer obtains legal title to the product which is when it is physically transferred to the pipelines or other transportation method agreed upon. Revenues from processing activities are recognized over time as processing occurs and are generally billed monthly. Royalty income is recognized monthly as it accrues in accordance with the terms of the royalty agreements.

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

See Note 14 for additional disclosures required by IFRS 15.

b) Accounting standards, interpretations and amendments to existing standards not yet effective

IFRS 16 "Leases"

IFRS 16, "Leases" was issued in January 2016 and replaces IAS 17 "Leases". Under the new standard, a single recognition and measurement model for leases is introduced which brings most leases on-balance sheet for the lessees, eliminating the distinction between operating and finance leases. A right-of-use asset and a corresponding liability will be recognized for all leases by the lessee except for short-term leases and leases of low value assets.

On adoption, non-current assets, current liabilities and non-current liabilities on the Corporation's consolidated statement of financial position will increase, as many of the operating lease arrangements will meet the definition of a lease under IFRS 16 and thus be recognized in the statement of financial position as a right-of-use asset with a corresponding liability. In addition, the nature of expenses related to these arrangements will change as the current presentation of operating lease expense will be replaced with a depreciation charge for the right-of-use asset and interest expense on the lease liabilities. As well, the classification of cash flows will be impacted as the current presentation of operating lease payments as operating cash flows will be split into financing (principal portion) and operating (interest portion) cash flows under IFRS 16.

Additional disclosures will also be required under IFRS 16.

The Company plans to apply IFRS 16 initially on January 1, 2019 using the cumulative effect method whereby the cumulative impact of adopting the standard will be recognized in retained earnings as at January 1, 2019 and comparative periods will not be restated.

3. TOU SHARE INVESTMENT

	March 31, 2018		December 31, 2017	
	Shares *(thousands)*	**Amount *($thousands)***	Shares *(thousands)*	Amount *($thousands)*
Balance, beginning of period	**1,667**	**$ 37,985**	1,847	$ 66,343
Sold	**–**	**–**	(180)	(5,687)
Unrealized change in fair value	**–**	**(1,551)**	–	(22,671)
Balance, end of period	**1,667**	**$ 36,434**	1,667	$ 37,985

At March 31, 2018, the Company held 1.67 million (December 31, 2017 – 1.67 million) TOU shares with a fair value of $36.4 million (December 31, 2017 – $38.0 million) based on a March 31, 2018 closing price of $21.85 per share (December 31, 2017 – $22.78 per share). Net income for the three months ended March 31, 2018 included an unrealized loss of $1.6 million (Q1 2017 – $11.2 million unrealized loss) representing the change in fair value of TOU shares held during the period.

At March 31, 2018, 1.67 million TOU shares (December 31, 2017 – 1.67 million TOU shares) were pledged as security for the TOU share margin loan (note 7).

As at March 31, 2018, a $1.00 per share change in the market price of TOU shares would change the Company's net income (loss) by $1.7 million.

4. PROPERTY, PLANT AND EQUIPMENT

	Oil and Gas Properties	**Corporate Assets**	**Total**
Cost			
December 31, 2016	$ 611,046	$ 7,182	$ 618,228
Additions	71,008	79	71,087
Acquisitions	233	–	233
Change in decommissioning obligations (note 11)	5,022	–	5,022
Dispositions	(8)	–	(8)
December 31, 2017	$ 687,301	$ 7,261	$ 694,562
Additions	14,727	50	14,777
Change in decommissioning obligations (note 11)	278	–	278
March 31, 2018	**$ 702,306**	**$ 7,311**	**$ 709,617**
Accumulated depletion, depreciation and impairment losses			
December 31, 2016	$ (391,439)	$ (6,903)	$ (398,342)
Depletion and depreciation	(33,226)	(210)	(33,436)
December 31, 2017	(424,665)	(7,113)	(431,778)
Depletion and depreciation	(10,101)	(23)	(10,124)
March 31, 2018	**$ (434,766)**	**$ (7,136)**	**$ (441,902)**
Carrying amount			
December 31, 2017	$ 262,636	$ 148	$ 262,784
March 31, 2018	**$ 267,540**	**$ 175**	**$ 267,715**

At March 31, 2018, property, plant and equipment included $1.6 million (December 31, 2017 – $1.3 million) of costs currently not subject to depletion.

a) Dispositions

Proceeds (payments) on dispositions

	Three months ended March 31,	
	2018	2017
Proceeds on dispositions of oil and gas properties	**3**	436
Proceeds on retained shallow gas marketing arrangements	**–**	538
Payments on fixed portion of retained shallow gas marketing arrangements	**(929)**	(929)
Net proceeds (payments) on dispositions	**(926)**	45

Gain (loss) on dispositions

		Three months ended March 31,		
		2018		2017
Proceeds on dispositions of oil and gas properties	**$**	**3**	$	436
Property, plant and equipment sold, net of accumulated DD&A		**–**		(8)
Marketing arrangements related to shallow gas property disposition		**–**		538
Unrealized loss on retained shallow gas marketing arrangements		**(874)**		(3,157)
Loss on dispositions	**$**	**(871)**	$	(2,191)

Dispositions of oil and gas properties during the first quarter of 2018 were nominal, while gains on dispositions for the first quarter of 2017 consisted of $0.4 million related to the sale of certain gross overriding royalties and non-core undeveloped land for proceeds of $0.4 million.

On October 1, 2016, Perpetual sold mature, high cost shallow gas assets in east central and northeast Alberta for nominal cash consideration and the transfer of $128.0 million of associated decommissioning obligations to the purchaser (the "Shallow Gas Disposition"). The Shallow Gas Disposition also included marketing arrangements whereby the Company provided floor price protection at $2.58/GJ to the purchaser and retained price exposure to the extent average monthly AECO 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. 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.

During the three months ended March 31, 2018, Perpetual fixed the cost of the floor price protection for the remaining period from April 1, 2018 to August 31, 2018 at a cost of $7.6 million, resulting in an unrealized loss of $0.9 million (Q1 2017 – $3.2 million).

As at March 31, 2018, the net retained shallow gas marketing arrangements have been summarized as follows:

Term	**Volumes at AECO (*GJ/d*)**	**Floor price (*$/GJ*)**	**Ceiling price (*$/GJ*)**	**Fair value (*$ thousands*)**
April 2018 – August 2018	33,611	–	2.81	–
April 2018 – August 2018[(1)]	33,611	2.58	–	(7,610)

(1) The Company has fixed the cost of net retained shallow gas obligations at $7.6 million to be paid over the remaining April to August 2018 period.

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

		March 31, 2018		December 31, 2017
Balance, beginning of period	**$**	**46,704**	$	47,159
Additions		**120**		1,948
Acquisitions		**–**		199
Non-cash exploration and evaluation expense		**–**		(2,602)
Balance, end of period	**$**	**46,824**	$	46,704

During the three months ended March 31, 2018, $0.2 million (Q1 2017 – $0.2 million) in costs were charged directly to E&E expense in net income (loss).

6. CAPITAL MANAGEMENT

Perpetual's strategy includes maintaining a strong capital base to retain investor, creditor and market confidence and to support the execution of its business plan. 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, the Term Loan, TOU share margin loan and net working capital, with value and liquidity enhanced through the current ownership of TOU shares. In order to manage its capital structure and available liquidity, the Company may from time to time issue equity or debt securities, sell its TOU shares or other assets and adjust its capital spending to manage current and projected debt levels.

The Company will continue to regularly assess changes to its capital structure and repayment alternatives, with considerations for both short term liquidity, investment opportunities and longer term financial sustainability.

7. TOU SHARE MARGIN LOAN

At March 31, 2018, Perpetual had a $15.9 million TOU share margin loan ($16.0 million principal amount) secured by 1.67 million TOU shares that matures on July 31, 2018. Interest rates are indexed to the same applicable Banker's Acceptance margins as the Credit Facility (note 8) ranging between 1.5% and 4.0%. Perpetual may repay a portion or the entirety of the loan at any time. Any repayment is a permanent reduction to the loan. Perpetual is required to maintain a lending ratio of less than 55% based on the ratio of the TOU share margin loan compared to the market value of the pledged TOU shares (the "Lending Ratio"). If at any time the Lending Ratio exceeds 55%, Perpetual is obligated to pay down the TOU share margin loan to restore the lending ratio to 40%.

During the quarter ended March 31, 2018, the TOU share price declined in value, prompting the Company to voluntarily pay down the TOU share margin loan by $2.5 million to maintain the Lending Ratio at less than 55%, funded from borrowings on its Credit Facility. As at March 31, 2018, the Lending Ratio was 44% of the closing market value of the pledged TOU shares. The TOU share margin loan is a financial liability measured at amortized cost.

The effective interest rate on the TOU share margin loan as at March 31, 2018 was 4.0%. For the period ended March 31, 2018, if interest rates changed by 1%, with all other variables held constant, the impact on annual interest expense and net income (loss) would be $0.2 million.

In addition to the Lending Ratio requirements, the TOU share margin loan is subject to customary non-financial covenants. The Company was in compliance with all TOU share margin loan covenants as at March 31, 2018.

8. REVOLVING BANK DEBT

As at March 31, 2018, the Company's reserve-based revolving credit facility (the "Credit Facility") had a borrowing limit (the "Borrowing Limit") of $65 million (December 31, 2017 – $65.0 million) under which $46.9 million was drawn (December 31, 2017 – $31.6 million) and $3.9 million of letters of credit had been drawn (December 31, 2017 – $3.9 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%.

On May 7, 2018, the Borrowing Limit was reduced from $65.0 million to $60.0 million, with the next Borrowing Limit redetermination scheduled on or prior to November 30, 2018. If not extended, the Credit Facility will cease to revolve, and all outstanding advances will be repayable on May 31, 2019.

The Credit Facility is secured by general security agreements covering all of the Company's assets with the exception of the TOU shares that have been pledged as security for the TOU share margin loan (note 7) and certain lands pledged to the gas over bitumen royalty financing counterparty. The Credit Facility also contains provisions which restrict the Company's ability to pay dividends on or repurchase its common shares.

The effective interest rate on the Credit Facility at March 31, 2018 was 4.6%. For the period ended March 31, 2018, if interest rates changed by 1% with all other variables held constant, the impact on annual interest expense and net income (loss) would be $0.5 million (Q1 2017 – nil).

At March 31, 2018, the Credit Facility was not subject to any financial covenants and the Company was in compliance with all customary non-financial covenants.

9. 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 (note 12).

	March 31, 2018	December 31, 2017
Balance, beginning of period	**$ 43,233**	$ –
Principal amount of Term Loan issued	**–**	45,000
Value allocated to warrants issued	**–**	(769)
Issue costs	**–**	(1,361)
Amortization of issue costs	**120**	363
Balance, end of period	**$ 43,353**	$ 43,233

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

The Term Loan has a cross-default provision with the Credit Facility and contains substantially similar provisions and covenants as the Credit Facility (note 8). 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.

At March 31, 2018, the Term Loan was not subject to any financial covenants and the Company was in compliance with all customary non-financial covenants.

10. SENIOR NOTES

			March 31, 2018		December 31, 2017	
	Maturity date	**Interest rate**	**Principal**	**Carrying Amount**	Principal	Carrying amount
2019 Senior Notes	July 23, 2019	8.75%	**14,572**	**14,491**	14,572	14,476
2022 Senior Notes	January 23, 2022	8.75%(1)	**17,918**	**17,228**	17,918	17,204
			$ 32,490	**$ 31,719**	$ 32,490	$ 31,680

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

The 2022 Senior Notes bear a fixed rate of 9.75% until January 23, 2018 and 8.75% thereafter and have identical covenants and rights as the existing 2019 Senior Notes.

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 percent 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 percent of the Senior Notes at a premium to face value. Within one year of maturity, the Company may redeem up to 100 percent of the Senior Notes at the principal amount.

The Senior Notes have a cross-default provision with the Company's Credit Facility (note 8). 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, the Term Loan, TOU share margin loan 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 percent of TTM EBITDA from January 1, 2011 to the end of the most recently completed fiscal quarter plus 100 percent 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 percent of the fair market value of any equity contributions made to the Company.

At March 31, 2018 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%.

At March 31, 2018, in addition to the restricted payment covenants noted above, the Senior Notes were not subject to any financial covenants and the Company was in compliance with all customary non-financial covenants.

11. PROVISIONS

	March 31, 2018	December 31, 2017
Decommissioning obligations	**$ 37,013**	$ 37,081
Restructuring costs	**1,419**	1,604
Total provisions	**$ 38,432**	$ 38,685
Provisions – current	**$ 1,792**	$ 2,580
Provisions – non-current	**36,640**	36,105
	$ 38,432	$ 38,685

a) Decommissioning obligations

The following significant assumptions were used to estimate the Company's decommissioning obligations:

	March 31, 2018	December 31, 2017
Decommissioning obligations, beginning of period	**$ 37,081**	$ 33,620
Obligations incurred	**278**	1,554
Obligations settled	**(553)**	(2,336)
Accretion (note 15)	**207**	775
Change in risk free interest rate	**–**	2,339
Change in estimates	**–**	1,129
Decommissioning obligations, end of period	**$ 37,013**	$ 37,081
Decommissioning obligations – current	**$ 1,590**	$ 2,243
Decommissioning obligations – non-current	**35,423**	34,838
	$ 37,013	$ 37,081

Total future decommissioning obligations are estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future periods.

The following significant assumptions were used to estimate the Company's decommissioning obligations:

	March 31, 2018	December 31, 2017
Undiscounted obligations	**$ 38,260**	$ 38,525
Average risk-free rate	**2.3%**	2.3%
Inflation rate	**2.0%**	2.0%
Expected timing of settling obligations	**1 to 25 years**	1 to 25 years

b) Restructuring costs

	Employee downsizing costs	Onerous office lease contract	Lease inducement	Total
Balance, December 31, 2016	$ 1,606	$ 2,548	$ –	$ 4,154
Transferred	–	(1,764)	1,764	–
Payments	(1,606)	(650)	(294)	(2,550)
Balance, December 31, 2017	–	134	1,470	1,604
Payments	–	(134)	(51)	(185)
Balance, March 31, 2018	**–**	**–**	**1,419**	**1,419**
Restructuring costs – current	–	–	202	202
Restructuring costs – non-current	–	–	1,217	1,217
Total	**$ –**	**$ –**	**$ 1,419**	**$ 1,419**

On February 1, 2017, Perpetual entered into a new head office lease at its current location for a 98-month period expiring March 31, 2025. As consideration, the landlord agreed to release the Company from all remaining obligations under its existing lease with remaining term to March 31, 2018 and remaining payments of $1.8 million were deferred over the 98-month term of the new lease. This lease inducement is comprised of $1.8 million related to surplus office space which was recognized as an onerous contract provision in 2016. The lease inducement is being amortized on a straight-line basis over the 98-month term of the new head office lease.

12. SHARE CAPITAL

	March 31, 2018		December 31, 2017	
	Shares *(thousands)*	**Amount *($thousands)***	Shares *(thousands)*	Amount *($thousands)*
Balance, beginning of period	**59,263**	**$ 1,336,838**	53,421	$ 1,325,705
Issued pursuant to private placement (c)	**–**	**–**	5,143	8,968
Issued pursuant to share-based payment plans	**472**	**905**	887	1,728
Shares held in trust purchases (b)	**–**	**–**	(708)	(1,000)
Shares held in trust issued (b)	**112**	**218**	520	1,437
Balance, end of period	**59,847**	**$ 1,337,961**	59,263	$ 1,336,838

a) Authorized

Authorized capital consists of an unlimited number of common shares.

b) Shares held in trust

The Company has compensation agreements in place with employees whereby they may be entitled to receive shares of the Company purchased on the open market by a trustee (note 13d). Share capital is presented net of the number and cumulative purchase cost of shares held by the trustee that have not yet been issued to employees. As at March 31, 2018, 336 thousand shares were held in trust (December 31, 2017 – 448 thousand).

c) Warrants and equity private placement

On March 14, 2017, the Company completed a private placement of 5.1 million equity units for gross proceeds of $9.0 million, of which $8.9 million has been allocated to share capital and $0.1 million to warrants. Each equity unit consisted of 1 common share and 0.21 warrants resulting in the issuance of 5,143,000 shares and 1,080,000 warrants. Included in the issuance were 1.6 million common shares and 0.4 million warrants issued to directors and officers of the Company or entities controlled by them, for proceeds of $2.9 million. In addition, 5.4 million warrants valued at $0.8 million were issued in connection with the Term Loan (note 9). Each warrant entitles the holder to acquire common shares on a one for one basis at an exercise price of $2.34 per share prior to March 14, 2020.

The following table summarizes the warrants and common shares issued:

	March 31, 2018					
	Shares (*thousands*)		**Amount** (*$thousands*)	**Warrants** (*thousands*)		**Amount** (*$thousands*)
Balance, December 31, 2016	–	$	–	–	$	–
Issued through Term Loan	–		–	5,400		769
Issued through private placement	5,143		8,968	1,080		154
Balance, December 31, 2017	5,143	$	8,968	6,480	$	923
Warrants exercised for common shares	–		–	–		–
Balance, March 31, 2018	**5,143**	**$**	**8,968**	**6,480**	**$**	**923**

If the volume weighted average price of Perpetual's common shares is greater than $2.34 per share for 60 consecutive calendar days, Perpetual has the option to require warrant holders to exercise all or any portion of the warrants at any time thereafter.

d) Per share information

	Three months ended March 31,			
		2018		2017
(thousands, except per share amounts)				
Net loss – basic	**$**	**(6,465)**	$	(14,172)
Effect of dilutive securities		**–**		–
Net loss – diluted	**$**	**(6,465)**	$	(14,172)
Weighted average shares				
Issued common shares		**59,759**		54,728
Effect of shares held in trust		**(414)**		(260)
Weighted average common shares outstanding – basic		**59,345**		54,468
Effect of dilutive securities		**–**		–
Weighted average common shares outstanding – diluted		**59,345**		54,468
Income (loss) per share – basic	**$**	**(0.11)**	$	(0.26)
Income (loss) per share – diluted	**$**	**(0.11)**	$	(0.26)

In computing per share amounts for the period ended March 31, 2018 and 2017, potentially issuable common shares through the share-based compensation plans and warrants were excluded as the Corporation had a net loss.

13. SHARE-BASED PAYMENTS

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

	Three months ended March 31,			
		2018		2017
Share options	**$**	**239**	$	319
Restricted rights		**–**		73
Performance share rights		**252**		290
Compensation awards		**315**		850
Share-based payments	**$**	**806**	$	1,532

a) Share option plan

Perpetual’s share option plan provides a long-term incentive to employees and directors associated with the Company’s long-term performance. The Board of Directors administers the share option plan and determines participants, number of share options and terms of vesting. The exercise price of the share options granted shall not be less than the value of the weighted average trading price for the Company’s common shares for the five trading days immediately preceding the date of grant. Share options granted vest evenly over 4 years, with expiry occurring 5 years after issuance.

The following tables summarize information about share options outstanding:

	March 31, 2018		December 31, 2017	
	Average exercise price ***($/share)***	**Share options** ***(thousands)***	Average exercise price *($/share)*	Share options *(thousands)*
Balance, beginning of period	**1.67**	**3,987**	1.71	2,068
Granted	**–**	**–**	1.71	2,015
Cancelled/forfeited	**1.60**	**(71)**	–	–
Expired	**–**	**–**	3.23	(96)
Balance, end of period	**1.68**	**3,916**	1.67	3,987

		Options outstanding		**Options exercisable**	
Range of exercise prices	**Number of share options (*thousands*)**	**Average contractual life (*years*)**	**Weighted average exercise price (*$/share*)**	**Number of share options (*thousands*)**	**Weighted average exercise price (*$/share*)**
$1.15 to $1.29	40	4.6	1.15	–	–
$1.30 to $1.57	1,775	3.2	1.42	451	1.42
$1.58 to $1.86	1,935	4.1	1.72	–	–
$1.87 to $5.97	166	1.4	4.01	126	4.67
Total	3,916	3.6	1.68	577	2.13

The Company used the Black Scholes pricing model to calculate the estimated fair value of the outstanding share options at the date of grant. During the first quarter of 2018, the Company did not grant any additional share options.

b) Restricted rights plan

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

The fair value of an award granted under the restricted rights plan is assessed on the grant date by factoring in the weighted average common share trading price for the five days preceding the grant date. This fair value is recognized as share-based payment expense over the vesting period with a corresponding increase to contributed surplus. Upon exercise of restricted rights, the value in contributed surplus pertaining to the exercise is recorded as shareholders capital. The estimated weighted average fair value of restricted rights granted during the three months ended March 31, 2018 was $0.66 per award (2017 – $1.58).

Restricted rights granted upon the exercise of performance share units (note 13c) and deferred shares (note 13d) vest on the grant date and have a 30-day exercise period. No value is assigned to restricted rights issued pursuant to those plans as the value and expense have been recognized pursuant to the grant date and expensed over the vesting period of the underlying performance share units and deferred shares.

The following table shows changes in the restricted rights outstanding under the restricted rights plan:

(*thousands*)	**March 31, 2018**	December 31, 2017
Balance, beginning of period	**–**	273
Granted to employees	**–**	44
Granted pursuant to exercise of performance share rights (c)	**1,008**	209
Granted pursuant to exercise of deferred shares (d)	**15**	369
Exercised for common shares	**(472)**	(895)
Cancelled/forfeited	**(8)**	–
Balance, end of period	**543**	–

c) Performance share rights plan

The Company has a performance share rights plan for the executive management team. Performance rights granted under the performance share rights plan vest two years after the date upon which the performance rights were granted. The performance rights that vest and become redeemable are a multiple of the performance rights granted dependent upon the achievement of certain performance metrics over the vesting period. Vested performance rights can be settled in cash or restricted rights (note 13b), at the discretion of the Board of Directors. Should participants of the performance share rights plan leave the organization other than through retirement or termination without cause prior to the vesting date, the performance rights would be forfeited.

The fair value of an award granted under the performance share rights plan is determined at the date of grant by using the closing price of common shares multiplied by the estimated performance multiplier. As at March 31, 2018, performance multipliers of 1.0 have been assumed for those unvested awards granted in 2017 and 2018 respectively. Fluctuations in share-based payments may occur due to changes in estimates of performance outcomes. The amount of share-based payment expense is reduced by an estimated forfeiture rate of 5% (2017 – 5%) for outstanding awards. The estimated weighted average fair value of performance share rights granted during the three-month period ended March 31, 2018 was $0.64 per award (2017 – $1.68).

The following table shows changes in the performance share rights outstanding under the performance share rights plan:

(*thousands*)	**March 31, 2018**	December 31, 2017
Balance, beginning of period	**1,060**	1,048
Granted	**1,035**	430
Exercised in exchange for restricted rights [1]	**(630)**	(418)
Balance, end of period	**1,465**	1,060

[1] In 2018, performance share rights were exercised in exchange for restricted rights based on a performance multiplier of 1.6 (2017 – 0.5).

d) Deferred compensation awards

Deferred options

The Company has deferred option agreements in place with certain employees whereby they may be entitled to receive shares of the Company purchased on the open market by an independent trustee if they remain employees of the Company during such time and exercise their options. Deferred options granted vest evenly over 4 years, with expiry occurring 5 years after issuance. The shares purchased by the independent trustee are reported as shares held in trust (note 12b).

The following tables summarize information about the deferred options:

	March 31, 2018		December 31, 2017	
	Average exercise price (*$/share*)	**Deferred options (*thousands*)**	Average exercise price (*$/share*)	Deferred options (*thousands*)
Balance, beginning of period	**1.68**	**2,268**	1.69	1,072
Granted	**–**	**–**	1.72	1,380
Cancelled/forfeited	**1.63**	**(205)**	1.74	(120)
Expired	**–**	**–**	2.55	(64)
Balance, end of period	**1.68**	**2,063**	1.68	2,268

	Deferred options outstanding			**Deferred options exercisable**	
Range of exercise prices	**Number of deferred options (*thousands*)**	**Average contractual life (*years*)**	**Weighted average exercise price (*$/share*)**	**Number of deferred options (*thousands*)**	**Weighted average exercise price (*$/share*)**
$1.30 to $1.57	760	3.1	1.42	204	1.42
$1.58 to $1.86	1,224	4.1	1.72	–	–
$1.87 to $5.97	79	1.4	3.69	58	4.26
Total	2,063	3.7	1.68	262	2.05

The Company used the Black Scholes pricing model to calculate the estimated fair value of deferred options at the date of grant. During the first quarter of 2018, the Company did not grant any additional deferred options.

Deferred shares

The Company also has deferred share agreements in place with directors and certain employees whereby, in the case of directors, upon retirement from the board of directors, or in the case of employees, over a period of two years if they remain employees of the Company during such time, may be entitled to receive at the discretion of the Board, cash, a grant of restricted rights (note 13b) or shares of the Company purchased on the open market by an independent trustee. The shares purchased by the independent trustee are reported as shares held in trust (note 12b).

The fair value of these agreements is assessed on the grant date by factoring in the weighted average common share trading price for the five days preceding the grant date and is reduced by an estimated forfeiture rate of 5% (2017 – 5%). The fair value is recognized as share-based payment expense over the vesting period with a corresponding increase to contributed surplus. Upon exercise of these agreements in exchange for restricted rights, the value in contributed surplus pertaining to the exercise is recorded as shareholders capital. Upon exercise of these agreements in exchange for shares held in trust, the shares held in trust account is reduced by the number of shares issued using the average cost base of purchased shares and offset to contributed surplus. During the first quarter of 2018, the Company did not grant any additional deferred shares.

The following table shows changes to these awards:

(*thousands*)	**March 31, 2018**	December 31, 2017
Balance, beginning of period	**1,857**	2,197
Granted	**–**	684
Exercised in exchange for shares held in trust (note 12)	**(112)**	(520)
Exercised in exchange for restricted rights	**(15)**	(369)
Cancelled/forfeited	**(71)**	(135)
Balance, end of period	**1,659**	1,857

14. REVENUE

On January 1, 2018, the Company adopted IFRS 15 "Revenue from Contracts with Customers" as detailed in Note 2, using the cumulative effect method. For the first quarter of 2018, there was no impact to oil and natural gas revenues as a result of adopting IFRS 15.

The Company sells its production pursuant to fixed or variable price contracts. The transaction price for variable priced contracts is based on the commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Under the contracts, the Company is required to deliver fixed or variable volumes of natural gas, crude oil or NGLs as may be applicable to the contract counterparty. Revenue is recognized when a unit of production is delivered to the contract counterparty. The amount of revenue recognized is based on the agreed transaction price, whereby any variability in revenue relates specifically to the Company's efforts to transfer production, and therefore the resulting revenue is allocated to the production delivered in the period during which the variability occurs. As a result, none of the variable revenue is considered constrained.

Natural gas, crude oil and NGLs are mostly sold under contracts of varying price and volume terms of up to one year. Revenues are typically collected on the 25th day of the month following production.

Natural gas volumes sold pursuant to the Company's market diversification contract are sold on a five-year contract expiring October 31, 2022, at fixed volume obligations of 35,000 MMBtu/d (40,000 MMBtu/d commencing April 1, 2018) and priced at daily index prices at each of the five market price points, less transportation costs from AECO to each market price point as follows:

Market/Pricing Point	**Daily sales volume (*MMBtu/d*)**
Chicago	12,200
Malin	10,800
Dawn	8,000
Michcon	5,200
Empress	3,800
Total natural gas sales volume obligation	**40,000**

The following table presents the Company's oil and natural gas sales disaggregated by revenue source:

	Three months ended March 31,	
	2018	2017
Oil and natural gas revenue		
Natural gas [1]	**15,451**	12,563
Oil [1]	**3,490**	3,451
NGL	**4,399**	2,144
Total oil and natural gas revenue	**23,340**	18,158

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

Included in accounts receivable at March 31, 2018 is $6.2 million of accrued oil and natural gas sales related to March 2018 production (December 31, 2017 – $8.0 million related to December 2017 production).

15. FINANCE EXPENSE

The components of finance expense are as follows:

	Three months ended March 31,	
	2018	2017
Cash interest expense and income		
Interest on revolving bank debt	**468**	180
Interest on TOU share margin loan	**148**	214
Interest on Term Loan	**911**	145
Interest on Senior Notes	**721**	1,358
Dividend income from TOU share investment	**(133)**	–
Total cash interest expense and income	**2,115**	1,897
Non-cash finance expense		
Amortization of debt issue costs	**250**	94
Accretion on decommissioning obligations (note 11)	**207**	191
Change in fair value of gas over bitumen royalty financing	**(130)**	(1,239)
Change in fair value of TOU share put option margin loans	**–**	921
Total non-cash finance expense	**327**	(33)
Finance expenses recognized in net income (loss)	**2,442**	1,864

16. FINANCIAL RISK MANAGEMENT

Realized gains on commodity price derivatives recognized in net income for the three months ended March 31, 2018 were $0.7 million (Q1 2017 – $0.7 million). The realized gains on commodity price derivatives for the three months ended March 31, 2018 did not include the early settlement of any contracts prior to their maturity.

Natural gas contracts

At March 31, 2018 the Company had entered into the following physical fixed price natural gas sales arrangements at AECO:

Term	Sold/bought	Volumes (*GJ/d*)	Average price (*$/GJ*)	Fair Value (*$ thousands*)
May 2018	Sold	20,300	0.93	(23)
September 2018 – March 2019	Sold	5,000	1.40	(372)

At March 31, 2018 the Company had entered into the following physical basis differential contracts between AECO and NYMEX:

Term	Sold/bought	Volumes (*MMBtu/d*)	AECO-NYMEX differential (*US$/MMBtu*)	Fair Value (*$ thousands*)
April 2018 – October 2018	Sold	7,500	(1.80)	76
May 2018 – October 2018	Bought	(7,500)	(1.92)	5
January 2019 – December 2019	Sold	12,500	(1.54)	(135)
January 2020 – December 2020	Sold	5,000	(1.43)	(18)

At March 31, 2018 the Company had entered into the following financial basis differential contracts between AECO and NYMEX:

Term	Sold/bought	Volumes (*MMBtu/d*)	AECO-NYMEX differential (*US$/MMBtu*)	Fair Value (*$ thousands*)
January 2019 – December 2019	Sold	7,500	(1.50)	63
January 2020 – December 2020	Sold	10,000	(1.40)	110

At March 31, 2018 the Company had entered into the following financial fixed price natural gas sales arrangements at AECO:

Term	Sold/bought	Volumes (*GJ/d*)	Average price (*$/GJ*)	Fair Value (*$ thousands*)
April 2018	Sold	5,000	1.18	(67)
April 2018 – October 2018	Sold	10,000	2.06	1,961
April 2018 – March 2019	Sold	10,000	1.41	(141)

Natural gas contracts - sensitivity analysis

As at March 31, 2018, 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 $4.2 million. Fair value sensitivity was based on published forward AECO and NYMEX prices.

Oil contracts

At March 31, 2018, the Company had entered into the following costless collar oil sales arrangements which settle in US$.

Term	Volumes at WTI (*bbls/d*)	Floor price (*US$/bbl*)	Ceiling price (*US$/bbl*)	Fair Value (*$ thousands*)
April 2018 – December 2018	250	50.00	58.40	(540)
April 2018 – December 2018	250	50.00	60.00	(435)

At March 31, 2018, the Company had entered into the following oil basis differential contracts between WTI and WCS trading.

Term	Volumes at WTI (*bbls/d*)	WTI-WCS differential (*US$/bbl*)	Fair Value (*$ thousands*)
April 2018 – June 2018	500	(14.45)	276

At March 31, 2018, the Company had entered into the following fixed price oil contracts which settle in US$.

Term	Volumes at WTI (*bbls/d*)	Fixed price (*US$/bbl*)	Fair Value (*$ thousands*)
April 2018 – December 2018	250	63.74	43

Oil contracts - sensitivity analysis

As at March 31, 2018, if future oil prices changed 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 change by $1.0 million. Fair value sensitivity was based on published forward WTI and WCS prices.

The following table is a summary of the fair value of the Company's commodity price derivative contracts by type:

	March 31, 2018	December 31, 2017
Physical natural gas contracts	**$ (739)**	$ 1,209
Financial natural gas contracts	**1,940**	1,506
Financial oil contracts	**(656)**	156
Fixed portion of retained shallow gas marketing arrangements (1)	**(7,610)**	(929)
Non-fixed portion of retained shallow gas marketing arrangements	**–**	(6,736)
Fair value of derivatives	**$ (7,065)**	$ (4,794)
Derivative assets – current	**1,875**	1,585
Derivative assets – non-current	**207**	1,506
Derivative liabilities – current	**(9,028)**	(7,885)
Derivative liabilities – non-current	**(119)**	–
Fair value of derivatives	**$ (7,065)**	$ (4,794)

(1) The Company has fixed the cost of net retained shallow gas obligations at $7.6 million to be paid over the remaining April to August 2018 period.

The following table details the Company's changes in fair value of commodity price derivatives:

	Three months ended March 31,	
	2018	2017
Unrealized gain (loss) on financial oil contracts	**(812)**	1,238
Unrealized gain (loss) on financial natural gas contracts	**434**	(3,621)
Unrealized gain (loss) on physical natural gas contracts	**(1,948)**	607
Unrealized gain on forward foreign exchange contracts	**–**	5,022
Unrealized change in fair value of commodity price derivatives	**(2,326)**	3,246
Realized gain (loss) on financial oil contracts	**424**	(973)
Realized gain on financial natural gas contracts	**267**	5,898
Realized loss on forward foreign exchange contracts	**–**	(4,178)
Change in fair value of commodity price derivatives	**(1,635)**	3,993

Fair value of financial assets and liabilities

The Company'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 Company aims to maximize the use of observable inputs when preparing calculations of fair value. Classification of each measurement into the fair value hierarchy is based on the lowest level of input that is significant to the fair value calculation.

The fair value of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities approximate their carrying amounts due to their short terms to maturity. Revolving bank debt and the TOU share margin loan bears interest at a floating market rate and accordingly, the fair market value approximates the carrying amount.

The fair value of the gas over bitumen royalty financing 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% 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.

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

As at March 31, 2018	Gross	Netting[1]	Carrying Amount	Fair value Level 1	Level 2	Level 3
Financial assets						
Fair value through profit and loss						
TOU share investment	**36,434**	**–**	**36,434**	**36,434**	**–**	**–**
Derivatives	**2,692**	**(610)**	**2,082**	**–**	**2,082**	**–**
Financial liabilities						
Financial liabilities at amortized cost						
TOU share margin loan	**15,929**	**–**	**15,929**	**15,990**	**–**	**–**
Revolving bank debt	**46,912**	**–**	**46,912**	**47,123**	**–**	**–**
Senior Notes	**31,719**	**–**	**31,719**	**–**	**32,490**	**–**
Term Loan	**43,353**	**–**	**43,353**	**–**	**–**	**45,000**
Fair value through profit and loss						
Derivatives	**9,757**	**(610)**	**9,147**	**–**	**9,147**	**–**
Gas over bitumen royalty financing	**2,170**	**–**	**2,170**	**–**	**–**	**2,170**

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