A SPECTRUM OF OPPORTUNITY

Capital activities

- Third quarter capital spending of $23 million continued to advance Perpetual's commodity diversification strategy, concentrating on liquids-rich natural gas and heavy oil development projects.
- Drilling activities during the third quarter included five (4.0 net) wells, with three (3.0 net) heavy oil wells on the Corporation's Mannville property and two (1.0 net) natural gas wells drilled in the greater Edson area.
- Enhancements to the West Edson gas processing facility, including construction of a refrigeration plant and sales pipeline, were completed late in the third quarter, with deliveries into the Alliance pipeline commencing on October 1, 2013.

Production Highlights

- Oil and natural gas liquids ("NGL" or "liquids") production of 4,064 bbl/d was 22 percent higher than the third quarter of 2012, reflecting Perpetual's focus on commodity diversification with capital spending directed to the development of oil and liquids-rich gas assets. Oil and liquids-rich gas production represented 22 percent of third quarter actual production and 18 percent of actual plus deemed production, up from 18 percent and 14 percent respectively in the comparative 2012 period.
- Natural gas production of 85.3 MMcf/d was down nine percent from the third quarter of 2012, reflecting asset dispositions, natural declines and the limited second quarter drilling program due to wet spring break-up conditions. Gas production from resource-style assets in West Central Alberta increased 33 percent from the comparative 2012 period to 22.5 MMcf/d, representing 26 percent of total gas production in the third quarter. Compared to the prior year period, shallow gas production decreased 18 percent as a result of asset dispositions and natural declines as the capital investment and operational focus was strategically shifted almost entirely to oil and liquids-rich, resource-style gas assets.
- Total actual production for the third quarter was 18,274 boe/d, down four percent from 18,955 boe/d in the third quarter of 2012. Total actual production was down seven percent from the previous quarter, reflecting the natural declines and the production lag due to the interruption in drilling activity during spring break-up. Total actual and deemed production for the third quarter was 21,991 boe/d (Q3 2012 – 23,288 boe/d), down six percent from the third quarter of 2012.

Financial Highlights

- Funds flow of $18.7 million ($0.13/common and diluted share) increased 73 percent from the prior year (Q3 2012 - $10.8 million) as a result of increased production from higher netback oil and NGL properties coupled with stronger oil prices, despite lower natural gas production and continued low natural gas prices. Compared to the preceding second quarter of 2013, funds flow increased eight percent, with increased oil and NGL revenue coupled with reduced royalties and operating costs more than offsetting lower natural gas prices.
- Operating netbacks continued to improve with the increased percentage of higher priced oil and NGL production. The third quarter operating netback was $17.65/boe, up 19 percent from the preceding second quarter of 2013 and 34 percent higher than the third quarter of 2012.
- Perpetual's average natural gas price, before derivatives, was $2.79/Mcf, down 24 percent from $3.68/Mcf in the preceding second quarter, which was consistent with the decrease in AECO market prices during the quarter. The Corporation's realized natural gas price, including derivatives was $3.31/Mcf, 17 percent higher than the AECO Monthly Index as a result of Perpetual's active risk management program but four percent lower than Perpetual's realized natural gas price of $3.44/Mcf for the same period in 2012.
- Perpetual's oil and NGL price, before derivatives, of $82.03/bbl was 28 percent higher than third quarter 2012, reflecting the increase in West Texas Intermediate Index ("WTI") prices as well as a narrowing of WTI to the Western Canadian Select ("WCS") differential price. Including derivatives, Perpetual realized an average third quarter oil and NGL price of $76.86/bbl relative to $59.63/bbl in the prior year period.

Q3 | 2013

PERPETUAL ENERGY IS A CANADIAN ENERGY COMPANY FOCUSED ON LONG-TERM VALUE CREATION THROUGH OIL AND GAS BASED EXPLORATION, DEVELOPMENT, PRODUCTION AND MARKETING. PERPETUAL HAS BUILT A SPECTRUM OF RESOURCE-STYLE OPPORTUNITIES SPANNING HEAVY OIL, LIQUIDS-RICH NATURAL GAS AND BITUMEN. THESE BALANCE A BASE OF LEGACY SHALLOW GAS ASSETS. WITH A TRACK RECORD OF INNOVATION AND OPERATIONAL EXCELLENCE, PERPETUAL IS POSITIONED TO GROW AND PROSPER THROUGHOUT THE DYNAMIC CYCLES OF THE ENERGY BUSINESS.

Perpetual remains focused on its five key strategic priorities in 2013:

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

Perpetual continued to make significant progress with respect to these priorities during the third quarter of 2013, as highlighted below.

Maximize value of Mannville heavy oil

- Drilling operations resumed on the Mannville heavy oil property with three (3.0 net) wells drilled during the third quarter of 2013. Results from new wells continue to meet expected type curves. An additional four (4.0 net) wells are planned for the remainder of 2013 commencing in mid-November to begin the one rig winter drilling program.
- Mannville heavy oil production of 3,346 bbl/d for the third quarter of 2013 was 28 percent higher than the third quarter of 2012 (2,622 bbl/d) as a result of targeted capital spending in the first quarter of 2013. With limited drilling in the second quarter due to break-up conditions, production declined seven percent from 3,575 bbl/d in the preceding second quarter of 2013.
- Operating netbacks for heavy oil production from the Mannville area strengthened in the third quarter with improved prices and reduced costs resulting from the onsite processing and drying of oil and the increased use of rail transportation. Heavy oil operating netbacks for the third quarter were $61.02/bbl, compared to $47.43/bbl in the third quarter of 2012.
- On July 15, 2013, Perpetual received regulatory approval to initiate a waterflood in a portion of the Mannville I2I pool for pressure maintenance to reduce the Sparky pool's decline rate and enhance recoverable oil reserves. Perpetual is in the process of converting two wells for injection and water injection is expected to commence during the fourth quarter to initiate the waterflood pilot scheme. Planning is underway to expand the waterflood operation in 2014 and convert the pilot waterflood to a pilot polymer flood in 2015.

Position for growth of Edson liquids-rich gas

- The first (0.5 net) well in a five (2.5 net) well development drilling program designed to fully utilize capacity at the upgraded West Edson gas plant was drilled, completed and tied in at West Edson late in the third quarter. The new well recorded the highest test rate of any Perpetual-operated well in the greater Edson area to date, exceeding 40 MMcf/d plus associated liquids at 12.5 MPa for a limited portion of its initial flow back and test period. Production commenced from this new well early in the fourth quarter at restricted rates of 20 MMcf/d plus associated liquids and has produced over 500 MMcfe in its first 30 days of production.
- Perpetual completed enhancements to the 30 MMcf/d West Edson gas processing facility (50 percent net to Perpetual) during the third quarter, which included the installation of refrigeration and liquids handling equipment. Capacity through the refrigeration plant now stands at 37 MMcf/d gross (50 percent Perpetual WI), with condensate stabilization capacity of 400 bbl/d. The installation of additional stabilization and compression to increase the capacity to 45 MMcf/d, with condensate stabilization capacity of 1,000 bbl/d, is planned for 2014.
- Construction of a 15.5 km sales gas pipeline and operated meter station was also completed in the third quarter, with start-up of the new plant components and sales gas pipeline commencing as planned on October 1, 2013.
- Completion of the facilities and pipeline projects combined with the new marketing and transportation arrangements are expected to reduce operating costs, decrease downtime and increase overall netbacks for the Corporation's West Edson production. Reported NGL production at West Edson will decrease in volume on a bbl/MMcf basis but increase in value with the new facility and sales configuration. A portion of the previously recovered liquids will now be included in higher heat content gas sales and sold directly to Aux Sable while high grade condensate liquids (C5 plus) are recovered through the new plant.

Advance and broaden the portfolio of high impact opportunities with risk-managed investment

- In West Central Alberta, Perpetual drilled one (0.5 net) exploratory horizontal well targeting the Fahler formation on recently acquired undeveloped land in the Alberta deep basin south of the Corporation's greater Edson core operating area. Tie in and extended flow test operations are underway to evaluate the potential of this zone for horizontal development.
- During the third quarter, Perpetual drilled a water source well to activate funding which was previously approved for Perpetual's Low-Pressure Electro-Thermally Assisted Drive ("LEAD") pilot project to develop bitumen in the Bluesky reservoir in the Panny area of northeast Alberta. The LEAD project received approval under the Alberta government's Innovative Energy Technology Program ("IETP"). Total capital and operating costs for the pilot project are estimated at $18.2 million. Approved funding through IETP is 30 percent of actual eligible costs to a maximum of $5.5 million. Application for regulatory approval for the LEAD pilot has been submitted but, as operations are largely restricted by winter access conditions, Perpetual does not expect material capital spending on the project to commence until winter 2014/2015.

Manage downside risk and reduce debt

- Perpetual's total net debt, including net bank debt ($65.6 million), convertible debentures and Senior Notes, was $375.3 million at the end of the third quarter, a decrease of $21.2 million from year end 2012. The ratio of net debt to trailing 12 months funds flow at September 30, 2013 has improved by 19 percent from year end to a ratio of 6.6 times.
- In October 2013 Perpetual's bank syndicate renewed the Corporation's credit facility at $110 million, with effect until the next semi-annual borrowing base review in April 2014.
- Perpetual will continue to pursue dispositions in 2014, targeting proceeds of a minimum of $100 million, which will be utilized to strengthen the Corporation's balance sheet.

- Near term natural gas prices at NYMEX weakened during the third quarter as milder than normal temperatures throughout North American reduced expected cooling electrical demand. The AECO basis differential also widened considerably during the third quarter, driven by changes in interruptible tolls put in place on the TransCanada Mainline. To mitigate the negative impact of the reduction in AECO daily prices from $3.53/Mcf in the second quarter of 2013 to $2.43/Mcf in the third quarter, Perpetual entered into additional short term price management contracts to realize an average price of $3.31/Mcf in the third quarter. Realized gains on gas price management contracts for the third quarter totaled $3.9 million.
- To further manage commodity price risk, Perpetual has in place natural gas hedges on 60 percent of forecast actual and deemed production for the fourth quarter of 2013 with an average of 70,000 GJ/day of natural gas production hedged at AECO at an average price of $3.20/GJ. Perpetual has also entered into financial contracts in the fourth quarter to fix the basis differential between the NYMEX and AECO for an average of 11,600 MMBtu/d at US$(0.36)/MMBtu. These hedges bring further certainty to a portion of funds flow for the remainder of 2013 to support planned capital programs.
- Perpetual utilized oil hedges to manage oil price risk and the potential negative impact on project economics and to protect a base level of funds flow from oil and NGL production, which represented 58 percent of third quarter petroleum and natural gas revenues. Perpetual's realized oil and NGL price, including derivatives, of $76.86/bbl was impacted by losses on derivative contracts of $1.9 million.
- To reduce exposure to fluctuations in oil prices, Perpetual has oil sales arrangements for 2,250 bbl/d for the remainder of 2013, protecting an average WTI index floor price of US$88.22/bbl with an average ceiling price of US$101.18/bbl. The Corporation has also entered into financial contracts for 2,250 bbl/d to fix the basis differential between the WTI and WCS trading hubs at an average of US$(22.79)/bbl. Additionally the Corporation has multiple oil price risk management contracts in place for 2014.
- To further diversify its funds flow, Perpetual increased its equity investment in the Warwick Gas Storage business ("WGS LP") during the second quarter of 2013 to a 30 percent interest. With the increase in natural gas price spreads related to the drop in AECO natural gas prices during the third quarter, combined with increased working gas capacity related to new drilling and delta pressuring operations, Perpetual locked in contracts to increase the expected contribution to funds flow from WGS LP to approximately $2 million for the fourth quarter of 2013.

Prepare to maximize value from shallow gas base assets in gas price recovery

- Shallow gas assets represented 74 percent of Perpetual's third quarter natural gas production of 62.8 MMcf/d. Optimization of operations for these properties has resulted in lower operating costs, giving this portfolio of base assets significant leverage to higher funds flow related to improved natural gas prices.
- A significant number of highly profitable shallow gas recompletions and workovers have been reviewed and high graded. Capital spending will occur primarily in 2014 as Perpetual expects improved AECO natural gas prices will generate higher returns on these activities.

Outlook

Perpetual expects capital spending for 2013 to be approximately $90 million. Consistent with the strategy during the nine months ended September 30, 2013, capital spending in the fourth quarter of 2013 will be driven by Perpetual's commodity diversification strategy, with spending focused on Mannville heavy oil and NGL in the Alberta deep basin. Planned capital spending totaling approximately $20 million for the fourth quarter of 2013 includes four (4.0 net) additional Mannville heavy oil wells and the implementation of a waterflood pilot in the Sparky Manville I2I pool. In West Central Alberta, the remaining four (2.0 net) liquids-rich gas wells in the West Edson program will be drilled along with minor facility and infrastructure spending on the Corporation's West Edson facilities.

Perpetual estimates 2013 funds flow will total $55 to $60 million based on current forward commodity prices, with oil and liquids production averaging close to 3,900 bbl/d and natural gas sales averaging approximately 90 MMcf/d.

Capital spending for the first quarter of 2014 is expected to be $26 to $32 million, with expenditures concentrated on the Corporation's proven commodity diversifying assets. Development and exploration in Mannville for heavy oil will continue with the drilling of up to 10 wells and additional waterflood implementation activities. In the greater Edson area, wells drilled in the fourth quarter of 2013 will be completed and brought on production and up to two additional wells will be drilled to maintain production at capacity at the upgraded facility in West Edson and to continue mineral leases and grow production at Edson.

Additionally, capital will be directed to winter-only access shallow gas assets in northeast Alberta to execute high return facility optimization projects, well workovers and uphole recompletions. Perpetual may adjust its planned capital spending program based on prevailing commodity prices as allowed by the Corporation's diverse inventory of exploration and development opportunities.

Furthermore, Perpetual is targeting a minimum of $100 million in disposition proceeds in 2014 with funds to be utilized to strengthen the balance sheet.

Susan Riddell Rose

President and Chief Executive Officer

November 7, 2013

FINANCIAL AND OPERATING HIGHLIGHTS

($Cdn thousands except volume and per share amounts)	Three Months Ended September 30			Nine Months Ended September 30		
	2013	2012	% Change	**2013**	2012	% Change
Financial						
Revenue (1) (2)	**54,725**	47,973	14	**157,152**	155,462	1
Funds flow (2)	**18,650**	10,760	73	**45,470**	37,929	20
Per share (2) (3)	**0.13**	0.07	86	**0.30**	0.25	19
Net earnings (loss)	**(7,267)**	(6,158)	(18)	**19,738**	6,701	195
Per share – basic and diluted (3)	**(0.05)**	(0.04)	(22)	**0.13**	0.05	160
Total assets	**712,463**	802,094	(11)	**712,463**	802,094	(11)
Net bank debt outstanding (2)	**65,560**	84,925	(23)	**65,560**	84,925	(23)
Senior notes, at principal amount	**150,000**	150,000	-	**150,000**	150,000	-
Convertible debentures, at principal amount	**159,779**	159,972	-	**159,779**	159,972	-
Total net debt (2)	**375,339**	394,897	(5)	**375,339**	394,897	(5)
Shareholders' equity	**57,884**	88,233	(34)	**57,884**	88,233	(34)
Capital expenditures						
Exploration and development (4)	**22,350**	17,922	25	**72,166**	58,590	23
Acquisitions, net of dispositions	**472**	(14,498)	(103)	**(51,228)**	(157,840)	(68)
Other	**34**	44	(23)	**118**	197	(40)
Net capital expenditures	**22,856**	3,468	559	**21,056**	(99,053)	(121)
Common shares outstanding (thousands)						
End of period	**148,482**	147,126	1	**148,482**	147,126	1
Weighted average	**148,382**	147,123	1	**150,103**	148,748	1
Shares outstanding at November 7, 2013	**148,490**			**148,490**		
Operating						
Daily average production						
Natural gas (MMcf/d) (5)	**85.3**	93.8	(9)	**88.7**	104.1	(15)
Oil and NGL (bbl/d) (5)	**4,064**	3,335	22	**3,978**	3,419	16
Total (boe/d) (5)	**18,274**	18,955	(4)	**18,741**	20,775	(10)
Gas over bitumen deemed production (MMcf/d) (6)	**22.3**	26.0	(14)	**23.8**	27.0	(12)
Average daily (actual and deemed – boe/d) (5) (6)	**21,991**	23,288	(6)	**22,708**	25,275	(10)
Average prices						
Natural gas, before derivatives ($/Mcf)	**2.79**	2.36	18	**3.23**	2.33	39
Natural gas, including derivatives ($/Mcf)	**3.31**	3.44	(4)	**3.50**	3.28	7
Oil and NGL, before derivatives ($/bbl)	**82.03**	64.24	28	**68.33**	65.04	5
Oil and NGL, including derivatives ($/bbl)	**76.86**	59.63	29	**66.66**	61.64	8
Barrel of oil equivalent, including derivatives ($/boe)	**32.55**	27.51	18	**30.71**	26.56	16
Drilling (wells drilled gross/net)						
Gas	**2/1.0**	1/0.5		**2/1.0**	5/4.0	
Oil	**3/3.0**	12/11.3		**32/30.7**	34/32.6	
Total	**5/4.0**	13/11.8		**34/31.7**	39/36.6	
Success rate (%)	**100/100**	100/100		**100/100**	100/100	

(1) Revenue includes realized gains (losses) on derivatives.

(2) These are non-GAAP measures. Please refer to "Non-GAAP Measures" included in management's discussion and analysis.

(3) Based on weighted average basic or diluted common shares outstanding for the period.

(4) Exploration and development costs include geological and geophysical expenditures.

(5) Production amounts are based on the Corporation's interest before royalty expense.

(6) The deemed production volume describes all gas shut-in or denied production pursuant to a decision report, corresponding order or general bulletin of the Alberta Energy and Utilities Board ("AEUB"), or through correspondence in relation to an AEUB ID 99-1 application. This deemed production volume is not actual gas sales but represents shut-in gas that is the basis of the gas over bitumen financial solution which is received monthly from the Alberta Crown as a reduction against other royalties payable.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is management's discussion and analysis ("MD&A") of Perpetual Energy Inc.'s ("Perpetual" or the "Corporation") operating and financial results for the three and nine months ended September 30, 2013 as well as information and estimates concerning the Corporation's future outlook based on currently available information. This discussion should be read in conjunction with the Corporation's condensed interim consolidated financial statements and accompanying notes for the three and nine months ended September 30, 2013 and 2012 as well as the audited consolidated financial statements and accompanying notes for the years ended December 31, 2012 and 2011. The MD&A should be read in conjunction with the Corporation's MD&A for the year ended December 31, 2012, as disclosure which is unchanged from the December 31, 2012 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 "Non-GAAP Measures" as well as forecasts, assumptions and other forward-looking information contained in the "Forward Looking Information" section of this MD&A. The date of this MD&A is November 7, 2013.

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

THIRD QUARTER 2013 RESULTS

Capital expenditures

	Three months ended September 30		Nine months ended September 30	
($ thousands)	**2013**	2012	**2013**	2012
Exploration and development	**22,325**	17,913	**70,868**	58,198
Geological and geophysical costs [1]	**25**	9	**1,298**	341
Interest in Warwick Gas Storage ("WGS LP")	**–**	–	**19,129**	–
Acquisitions	**532**	1,709	**7,717**	2,407
Dispositions	**(60)**	(16,207)	**(78,074)**	(160,247)
Other	**34**	44	**118**	248
Total	**22,856**	3,468	**21,056**	(99,053)

(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.

Wells drilled

	Three months ended September 30		Nine months ended September 30	
	2013	2012	**2013**	2012
Natural gas – gross (net)	**2 (1.0)**	1 (0.5)	**2 (1.0)**	5 (4.0)
Crude oil – gross (net)	**3 (3.0)**	12 (11.3)	**32 (30.7)**	34 (32.6)
Total – gross (net)	**5 (4.0)**	13 (11.8)	**34 (31.7)**	39 (36.6)

In the third quarter of 2013, exploration and development expenditures of $22.3 million continued to be focused on the Company's proven diversifying and resource-style growth assets at Mannville for heavy oil and in West Central Alberta for liquids-rich gas. The Mannville heavy oil drilling program re-commenced after break up in late June with two gross (2.0 net) wells drilled at the end of the second quarter. Completion and tie-in activities on these wells were incurred during the third quarter of 2013. In addition, third quarter capital activities included drilling, completion and tie-in operations executed on three gross (3.0 net) wells. In mid-July, drilling activities also re-commenced at West Central Alberta with an exploratory well on recently acquired undeveloped land followed by the commencement of a development drilling program designed to fill the new gas plant at West Edson. Construction of a refrigeration plant at the West Edson gas processing facility and a sales pipeline to tie-in to the Alliance Canada Pipeline system was largely completed during the third quarter, commencing start-up operations in late September.

No material dispositions were closed during the third quarter of 2013 compared to the same period in 2012 which included the sale of non-core natural gas assets in northeast Alberta and a portion of an operated heavy oil pool in the Mannville area for proceeds of $16.2 million.

Production

	Three months ended September 30		Nine months ended September 30	
	2013	2012	**2013**	2012
Natural gas (MMcf/d)				
Eastern district – North	**39.0**	48.0	**39.2**	52.0
Eastern district – South	**23.8**	28.8	**25.8**	30.7
West Central district	**22.5**	16.9	**23.7**	21.4
Total natural gas	**85.3**	93.7	**88.7**	104.1
Crude oil (bbl/d)				
Eastern district – North	**4**	–	**8**	6
Eastern district – South [1]	**3,346**	2,622	**3,227**	2,478
West Central district	**50**	78	**49**	121
Total crude oil	**3,400**	2,700	**3,284**	2,605
Natural gas liquids (bbl/d)				
Eastern district – North	**–**	1	**–**	1
Eastern district – South	**8**	2	**6**	5
West Central district	**656**	633	**688**	807
Total natural gas liquids	**664**	636	**694**	813
Total actual production (boe/d)	**18,274**	18,955	**18,741**	20,775
Deemed natural gas production (MMcf/d)	**22.3**	26.0	**23.8**	27.0
Total actual plus deemed production (boe/d)	**21,991**	23,288	**22,708**	25,275

(1) Primarily Mannville heavy oil.

Total actual and deemed production for the three and nine months ended September 30, 2013 compared to the same period in 2012 decreased six percent and 10 percent respectively due to non-core asset dispositions completed in 2012 which were partially offset by increased heavy oil production. Third quarter actual and deemed production of 21,991 boe/d was down seven percent from the second quarter of 2013 (23,725 boe/d) which was consistent with total actual production decreasing from 19,708 boe/d in the second quarter of 2013 to 18,274 boe/d in the third quarter. The decrease was due to lag times required to bring on new production after the re-commencement of Perpetual's drilling program following break up and natural declines. In addition, Perpetual allowed production to decline at West Edson as plant construction was completed with new wells tied directly into the new plant to reduce third party processing fees.

Non-core asset dispositions and natural declines impacted natural gas production for 2013 with third quarter production of 85.3 MMcf/d down nine percent from 93.7 MMcf/d recorded in 2012 and year-to-date production of 88.7 MMcf/d down 15 percent from 104.1 MMcf/d in 2012. Average natural gas production decreased seven percent from the preceding quarter (91.9 MMcf/d) as a result of natural declines with no new production brought on stream during the quarter. New production from Perpetual's third quarter drilling program in West Edson commenced early in the fourth quarter of 2013.

Oil and natural gas liquids ("NGL") production increased 22 percent to 4,064 bbl/d in the third quarter of 2013 from 3,335 bbl/d in the third quarter of 2012 and increased 16 percent from 3,419 bbl/d in 2012 to 3,978 bbl/d in 2013 on a year-to-date basis as a result of a focused capital spending program on Mannville and Edson Wilrich properties consistent with the Corporation's commodity diversification strategy. Compared to the prior quarter, oil and NGL production declined seven percent from the second quarter of 2013 (4,384 bbl/d) primarily as a result of natural declines associated with greater Edson production and heavy oil production from new Mannville wells brought on production following the active first quarter drilling program.

Deemed production for the third quarter of 2013 of 22.3 MMcf/d decreased 14 percent from 26.0 MMcf/d in 2012. The decrease reflects the annual ten percent reduction assessed on deemed production volumes combined with wells reaching the end of their ten year deemed production period. Wells are only eligible for deemed production and the associated gas over bitumen royalty adjustment for ten years following shut-in.

Commodity prices

	Three months ended September 30		Nine months ended September 30	
	2013	2012	**2013**	2012
Reference prices				
AECO Monthly Index ($/Mcf)	**2.82**	2.19	**3.16**	2.18
AECO Daily Index ($/Mcf)	**2.43**	2.28	**3.05**	2.12
Alberta Gas Reference Price ($/Mcf) (1)	**2.53**	2.11	**2.94**	2.05
West Texas Intermediate ("WTI") light oil ($US/bbl)	**105.82**	92.22	**98.14**	96.21
Western Canadian Select ("WCS") differential ($US/bbl)	**(17.48)**	(21.72)	**(22.87)**	(22.00)
Average Perpetual prices				
Natural gas				
Before derivatives ($/Mcf) (2)	**2.79**	2.36	**3.23**	2.33
Percent of AECO Monthly Index	**99%**	108%	**102%**	107%
Including derivatives ("realized" price) ($/Mcf)	**3.31**	3.44	**3.50**	3.28
Percent of AECO Monthly Index	**117%**	157%	**111%**	150%
Oil and NGL				
Before derivatives ($/bbl)	**82.03**	64.24	**68.33**	65.04
Including derivatives ("realized" price) ($/bbl)	**76.86**	59.63	**66.66**	61.64
Barrel of oil equivalent				
Average realized price ($/boe)	**32.55**	27.51	**30.71**	26.56

(1) Alberta Gas Reference Price is the price used to calculate Alberta Crown royalties.

(2) Natural gas price before derivatives includes physical forward sales contracts for which delivery was made during the reporting period but excludes realized gains and losses on financial derivatives.

AECO Monthly Index prices of $2.82/Mcf for the third quarter of 2013 increased 29 percent from $2.19/Mcf for the third quarter of 2012. Similarly, AECO Monthly Index prices increased 45 percent to $3.16/Mcf for the nine months ended September 30, 2013 from $2.18/Mcf for the same period in 2012. Colder than normal weather in late February and March of 2013 helped reduce the surplus in U.S. natural gas storage facilities by over 800 Bcf at March 31, 2013 versus March 31, 2012, which contributed to price appreciation through to the end of the second quarter of 2013. Following this increase, NYMEX prices declined due to reduced cooling demand resulting from mild summer weather and gas to coal switching by power producers. AECO Monthly Index prices decreased during the third quarter of 2013 by 21 percent from $3.59/Mcf in the second quarter of 2013 as new pipeline tariffs, effective July 1, 2013 changed the pricing for short term pipeline rates which stranded gas in Alberta forcing storage levels in the province to increase causing AECO basis markets to widen.

Fluctuations in the AECO Monthly Index prices have been reflected in Perpetual's natural gas price before derivatives with a decrease from the second quarter to the third quarter of 2013 of 24 percent and increases of 18 percent in the third quarter of 2013 and 38 percent for the nine months ended September 30, 2013 compared to their respective periods in 2012.

Perpetual's average realized third quarter gas price, including derivatives, decreased to $3.31/Mcf from $3.44/Mcf in 2012. The Corporation's realized 2012 natural gas price was enhanced by realized gains on natural gas derivatives with close to 75 percent of Perpetual's production being economically hedged significantly above settled market prices during that period. In response to the new pipeline tariffs at the beginning of the third quarter of 2013, Perpetual managed its downside risk by increasing third quarter gas hedges resulting in a third quarter gas price that was 117 percent of the AECO Monthly Index.

Perpetual's oil and NGL price, before derivatives, of $82.03/bbl increased 28 percent compared to the third quarter of 2012 due to increased WTI prices in 2013 as well as a narrowing of WTI to the WCS differential price. Oil and NGL prices, before derivatives of $68.33/bbl for the nine months ended September 30, 2013 increased marginally from $65.04/bbl during the same period in 2012. Realized oil prices in 2013 were also positively impacted by delivery of higher grade oil at the sales points related to drying operations implemented at the majority of the Mannville heavy oil production pads.

Perpetual's realized oil and NGL prices, including derivatives, were impacted by losses recorded on financial WTI fixed price contracts resulting in realized oil and NGL prices that were lower than prices before derivatives for the three months ended September 30, 2013. For the nine month period, losses on financial WTI contracts were partially offset by $0.9 million in call option premiums received during the first quarter of 2013.

Perpetual's total average realized commodity price of $32.55/boe for the third quarter and $30.71/boe for the nine months ended September 30, 2013 increased 18 percent and 16 percent respectively from the same periods in 2012 primarily due to higher natural gas prices and the increased proportion of oil and NGL in Perpetual's production mix.

Risk management

Perpetual's risk management strategy is focused on using both physical and financial derivatives to provide increased certainty in funds flow by mitigating the effect of commodity price volatility, to lock in economics on capital programs and acquisitions, and to take advantage of perceived anomalies in commodity markets. Perpetual also utilizes foreign exchange swaps and physical or financial swaps related to the differential between natural gas prices at the AECO and NYMEX trading hubs and oil basis differentials between WTI and WCS in order to mitigate the effects of fluctuations in foreign exchange rates and basis differentials on the Corporation's realized commodity prices.

Natural Gas

Perpetual has in place natural gas hedges on 34 percent of estimated natural gas production and deemed natural gas production for the remainder of 2013. The following tables provide a summary of derivative natural gas contracts in place as at November 7, 2013:

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

Type of contract	Term [1]	Volumes at AECO (GJ/d)	Price ($/GJ) [2]	Futures market ($/GJ) [3]
Financial	December 2013	40,000	3.27	3.15

(1) Excludes settled and prompt month contracts.

(2) Average price calculated using weighted average price for net open contracts.

(3) Futures market prices are based on closed forward AECO prices as of November 7, 2013.

Sold natural gas call option:

Type of contract	Term	Expiry date	Volumes at AECO (GJ/d)	Strike price ($/GJ)	Futures market ($/GJ) [1]
Call	January – December 2014	Monthly 2014	10,000	4.25	3.14

(1) Futures market prices are based on closed forward AECO prices as of November 7, 2013.

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

Type of contract	Term [1]	Volumes at NYMEX-AECO (MMBTU/d)	Price ($/MMBTU) [2]	Futures market ($/MMBTU) [3]
Financial	December 2013	32,500	(0.33)	(0.34)
Financial	January – March 2014	2,500	(0.42)	(0.41)

(1) Excludes settled and prompt month contracts.

(2) Average price calculated using weighted average price for net open contracts; the price at which these contracts settle is equal to the NYMEX index less a fixed basis amount.

(3) Futures market prices are based on closed forward NYMEX-AECO differential prices as of November 7, 2013.

Crude Oil

Perpetual has crude oil physical and financial contracts in place for 2,250 bbls/day of crude oil production for the remainder of 2013, 1,500 bbls/day for 2014 with non-triggered WTI call options of 2,000 bbls/day and 1,500 bbls/day for 2014 and 2015 respectively. The following tables provide a summary of derivative crude oil contracts in place as at November 7, 2013:

Costless collar oil sales arrangements in $USD:

Type of contract	Term [1]	Volumes at WTI (bbl/d)	Floor price ($US/bbl) [2]	Ceiling price ($US/bbl) [2]	Futures market ($US/bbl) [3]
Collar	November – December 2013	500	95.00	108.75	94.60
Collar	November – December 2013	500	80.00	89.65	94.60
Collar	November – December 2013	250	90.00	97.00	94.60
Collar [4]	November – December 2013	500	82.00	90.25	94.60
Collar [5]	November – December 2013	500	95.00	118.15	94.60
Period total		2,250	88.22	101.18	94.60
Collar	January – December 2014	500	85.00	91.10	92.66
Collar	January – December 2014	500	85.00	91.20	92.66
Collar [6]	January – December 2014	500	90.00	103.15	92.66
Period total		1,500	86.67	95.15	92.66

(1) Excludes settled contracts.

(2) Average price calculated using weighted average price for net open contracts.

(3) Futures market prices are based on closed forward WTI oil prices as of November 7, 2013.

(4) In this collar arrangement, if the WTI index settles at or above $US82.00/bbl in any month Perpetual will receive $US90.25/bbl, and if the index settles below $US82.00/bbl Perpetual will receive $US82.00/bbl.

(5) In this collar arrangement Perpetual received a ceiling price above the market price for such collars, and in exchange should the WTI index settle above $US118.15/bbl in any month during the contract period Perpetual will receive a price of $US100.00/bbl.

(6) In this collar arrangement Perpetual received a ceiling price above the market price for such collars, and in exchange should the WTI index settle above $US103.15/bbl in any month during the contract period Perpetual will receive a price of $US93.00/bbl.

Costless collar oil sales arrangements in $CAD:

Type of contract	Term	Volumes at WTI (bbl/d)	Floor price ($CAD/bbl)	Ceiling price ($CAD/bbl)	Futures market ($CAD/bbl) [1]
Collar	January – December 2015	500	87.50	95.25	93.06

(1) Futures market prices are based on closed forward WTI oil prices as of November 7, 2013.

Basis differential contracts between WTI and WCS trading:

Type of contract	Term [1]	Volumes (bbl/d)	WTI-WCS differential ($US/bbl) [2]	Futures market ($US/bbl) [3]
Financial	December 2013	2,250	(22.79)	(41.00)
Financial	January – December 2014	1,250	(22.78)	(26.00)

(1) Excludes settled and prompt month contracts.

(2) Average price calculated using weighted average price for net open contracts; the price at which these contracts settle is equal to the WTI index less a fixed basis amount.

(3) Futures market prices are based on closed forward WTI-WCS differential prices as of November 7, 2013.

Sold oil call options:

Type of contract	Term	Expiry date	Volumes at WTI (bbl/d)	Strike price ($US/bbl WTI)	Futures market ($US/bbl WTI) [1]
Swaption	January – December 2014	Dec 31, 2013	1,000	90.00	94.60
Call	January – December 2014	Monthly 2014	2,000	105.00	92.66
Call	January – December 2015	Monthly 2015	1,500	100.00	87.68

(1) Futures market prices are based on closed forward WTI oil prices as of November 7, 2013.

Foreign Exchange

U.S. dollar forward sales arrangements:

Type of contract	Term [1]	Perpetual sold/bought	Notional $USD/month	Exchange rate ($CAD/$USD)
Financial [2]	November – December 2013	sold	$1,000,000	$1.0700
Financial [3]	November – December 2013	sold	$1,000,000	$1.0400
Financial [3]	November – December 2013	sold	$1,000,000	$1.0450
Financial [3]	November – December 2013	sold	$2,000,000	$1.0500

(1) Excludes settled contracts.

(2) In this arrangement, Perpetual receives $1,000 for each day during the month that the daily $CAD/$USD exchange rate is between $0.9750 and $1.0700. If the average monthly $CAD/$USD exchange rate is greater than $1.0700 Perpetual pays USD$1,000,000 multiplied by the difference between the average monthly $CAD/$USD exchange rate and $1.0700. No settlement occurs between Perpetual and the counterparty if the average monthly $CAD/$USD exchange rate settles below $0.9750.

(3) At December 31, 2013, the counterparty has the right to extend the arrangements for the next 12 months at the same exchange rate.

Revenue

($ thousands, except as noted)	Three months ended September 30 2013	2012	Nine months ended September 30 2013	2012
Petroleum and natural gas ("P&NG") revenue				
Natural gas revenue before derivatives [1]	**21,887**	20,315	**77,989**	66,494
Oil and NGL revenue before derivatives	**30,668**	19,713	**74,230**	60,915
Total P&NG revenue	**52,555**	40,028	**152,219**	127,409
Other revenue				
Gas storage revenue	**–**	–	**–**	4,260
Unrealized gains (losses) on derivatives	**(1,854)**	(21,049)	**2,787**	(2,647)
Realized gains on derivatives [2]	**2,170**	7,945	**4,933**	23,793
Total other revenue	**316**	(13,104)	**7,720**	25,406
Total revenue	**52,871**	26,924	**159,939**	152,815
Per boe	**31.45**	15.44	**31.26**	26.85

(1) Includes revenues related to physical forward sales contracts which settled during the period and excludes realized gains on derivatives.

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

Perpetual`s petroleum and natural gas ("P&NG") revenue, before derivatives, in the third quarter of 2013 of $52.6 million increased 32 percent from the third quarter of 2012 ($40.0 million) due to higher oil and NGL production, a larger proportion of production from oil and NGL, and improved oil and natural gas prices in 2013. Natural gas revenue, before derivatives, of $21.9 million for the third quarter increased eight percent from $20.3 million in 2012 with increased natural gas prices more than offsetting the reduction in natural gas production associated with recent property dispositions. Oil and NGL revenues of $30.7 million were $11.0 million higher than the prior year with higher realized prices and increased production as a result of Perpetual's focus on commodity diversification with 2012 and 2013 capital spending programs directed almost exclusively to the development of oil and liquids-rich gas assets. P&NG revenue for the third quarter of 2013 decreased eight percent from the preceding second quarter ($57.2 million) due to production declines and a decrease in natural gas prices.

Realized gains on derivatives in the third quarter of 2013 totaled $2.2 million compared to $7.9 million for the same period in 2012. The Corporation also recorded unrealized losses on derivatives of $1.9 million during the third quarter of 2013, representing the change in mark-to-market value of derivative contracts as forward commodity prices change. Unrealized gains and losses on derivatives are excluded from the Corporation's calculation of funds flow as they are non-cash. Derivative gains and losses vary depending on the nature and extent of hedging contracts in place, which in turn, varies with the Corporation's assessment of commodity price risk, committed capital spending and other factors. Perpetual had anticipated the risk of a very low gas price environment's impact to funds flow in 2012. To manage the downside risk, Perpetual entered into hedging contracts which represented close to 75 percent of actual and deemed natural gas production for 2012.

Royalties

($ thousands except as noted)	Three months ended September 30 2013	2012	Nine months ended September 30 2013	2012
Crown	**2,685**	573	**7,911**	3,769
Freehold and overriding	**2,416**	1,801	**7,054**	5,354
Total	**5,101**	2,374	**14,965**	9,123
Crown (% of P&NG sales)	**5.1%**	1.4%	**5.2%**	3.0%
Freehold and overriding (% of P&NG sales)	**4.6%**	4.5%	**4.6%**	4.2%
Total (% of P&NG sales)	**9.7%**	5.9%	**9.8%**	7.2%
Per boe	**3.03**	1.36	**2.93**	1.60

Third quarter combined average royalty rate on P&NG revenues increased to 9.7 percent from 5.9 percent for the comparative period in 2012 as a result as of increased Crown royalty rates due to increased Alberta gas reference prices, the effect of annual royalty rate adjustments determined in the second quarter of 2013 and the transition of recently drilled oil and gas wells to higher royalty rates after the initial low royalty rate incentive period reached maximum volume recoveries.

The Corporation's combined average royalty rate on P&NG revenues was 9.8 percent for the nine months ended 2013 compared to 7.2 percent for the same period in 2012. The increase was due to annual Crown royalty adjustments recorded during the second quarter of $2.6 million relating to the previous year for capital cost allowance, custom processing and operating costs. The Crown adjusts these deductions from a corporate level to a facility level annually in June of each year.

Freehold and overriding royalties for the three and nine months ended September 30, 2013 slightly increased compared to the prior year as a result of increased oil production on freehold lands in the Mannville area which carry a higher freehold royalty rate than the Corporation's production on Crown lands.

Production and operating expenses

($ thousands except as noted)	Three months ended September 30		Nine months ended September 30	
	2013	2012	**2013**	2012
P&NG production expense	**17,606**	20,727	**57,535**	60,575
Gas storage operating expense	**–**	–	**–**	2,031
Total	**17,606**	20,727	**57,535**	62,606
Per boe	**10.47**	11.88	**11.25**	11.00

Total production and operating expenses decreased 15 percent to $17.6 million ($10.47/boe) for the third quarter of 2013 from $20.7 million ($11.88/boe) in 2012, reflecting the impact of Perpetual's cost saving measures applied to the production of its shallow gas assets and changes in timing of property tax payments. Cost savings were partially offset by higher operating costs associated with increased heavy oil production. On a year to date basis, production and operating expenses decreased from $62.6 million in 2012 to $57.5 million in 2013 as no operating expenses were recorded for the gas storage business in 2013 with the change in accounting treatment. The overall reduction of the Corporation's interest beginning April 2012 resulted in the investment being accounted for using the equity method rather than line-by-line consolidation.

Transportation costs

($ thousands except as noted)	Three months ended September 30		Nine months ended September 30	
	2013	2012	**2013**	2012
Transportation costs	**2,352**	1,965	**7,440**	6,076
Per boe	**1.40**	1.13	**1.45**	1.07

Transportation costs include clean oil trucking and transportation as well as costs to transport natural gas from the plant gate to a commercial sales point. Transportation costs for the third quarter of 2013 increased to $2.4 million from $2.0 million for the same period in 2012 primarily due to higher transportation rates combined with increased oil production volumes. Beginning in 2013, Perpetual increased its onsite processing of oil to meet sales point specifications, which in turn resulted in a change in classification from operating costs (emulsion trucking) to transportation costs (clean oil trucking). This change to onsite processing has enhanced oil marketing opportunities and improved the overall netback for heavy oil production from the Mannville area.

Operating netbacks

	Three months ended September 30		Nine months ended September 30	
	2013	2012	**2013**	2012
Operating netback ($ thousands)				
Revenue [1] [2]	**54,725**	47,973	**157,152**	151,202
Royalties	**(5,101)**	(2,374)	**(14,965)**	(9,123)
Operating costs [1]	**(17,606)**	(20,727)	**(57,535)**	(60,575)
Transportation	**(2,352)**	(1,965)	**(7,440)**	(6,076)
Total operating netback	**29,666**	22,907	**77,212**	75,428
Boe operating netback ($/boe)				
Revenue [1] [2]	**32.55**	27.51	**30.71**	26.56
Royalties	**(3.03)**	(1.36)	**(2.93)**	(1.60)
Operating costs [1]	**(10.47)**	(11.88)	**(11.25)**	(10.64)
Transportation	**(1.40)**	(1.13)	**(1.45)**	(1.07)
Boe operating netback	**17.65**	13.14	**15.08**	13.25

(1) Excludes amounts related to the operation of the gas storage business as revenue and expenses were no longer accounted for on a consolidated basis after April 25, 2012.

(2) Revenue includes realized gains and losses on derivatives and call option premiums received. See "Non-GAAP measures" in this MD&A.

Perpetual's operating netback of $29.7 million in the third quarter of 2013 increased 30 percent from $22.9 million in the third quarter of 2012. Increased oil production as a percentage of the production mix, higher realized oil prices and lower operating expenses partially offset increased royalties and transportation expenses. On a boe basis, the third quarter operating netback increased 34 percent to $17.65/boe from $13.14/boe in the third quarter of 2012, which also reflects the increased percentage of higher netback production from crude oil and NGL.

Gas over bitumen (“GOB”) revenue

	Three months ended September 30		Nine months ended September 30	
($ thousands except as noted)	**2013**	2012	**2013**	2012
GOB royalty adjustments – revenue	**1,297**	738	**5,352**	2,497
GOB royalty reclassification on dispositions	**–**	28,481	**–**	28,481
GOB revenue	**1,297**	29,219	**5,352**	30,978
Per boe	**0.77**	16.75	**1.05**	5.44

Perpetual receives GOB royalty adjustments from Alberta Energy as compensation for its ownership in wells that have been shut-in or denied the right to produce as a result of bitumen conservation decisions. The monthly royalty adjustments are based on the Corporation’s net deemed production, which is calculated on a well by well basis and declines by ten percent per year over a ten year period. GOB royalty adjustments may be repayable to the Crown in the future as an overriding royalty on gas production from wells which resume production within the gas over bitumen area. To the extent that the Corporation cannot determine if, when or at what amount the royalty adjustments may be repayable, GOB royalty adjustments are not recognized as revenue, but rather are recorded as gas over bitumen royalty obligations. However, to the extent that the Corporation has sold its ownership in certain of these shut-in wells but retained the right to receive gas over bitumen royalty adjustments, any future repayment to the Crown on gas production from the sold wells is no longer Perpetual’s responsibility. As a result, GOB royalty adjustments received by the Corporation for disposed wells are recognized as revenue.

Perpetual recorded $1.3 million in GOB revenue in the third quarter of 2013 associated with disposed wells. In the third quarter of 2012, Perpetual recorded 29.2 million in GOB revenue of which $28.5 million related to the reclassification of prior period GOB royalty adjustments from liability to revenue for GOB wells sold during the third quarter of 2012. Revenue GOB royalty adjustments increased for both the three months and nine months ended September 30, compared to their respective periods in 2012 primarily as a result of higher Alberta reference prices and the increase in disposed wells recognized as revenue due to 2012 dispositions.

Collection of GOB royalty adjustments is limited by the Alberta government to deductions from the Corporation’s monthly natural gas royalty invoices. As of September 30, 2013, the Corporation had accumulated $17.4 million (December 31, 2012 – $17.7 million) of gas over bitumen adjustments receivable of which $10.2 million (December 31, 2012 – $8.8 million) relate to wells retained by the Corporation and, therefore, have been netted against the gas over bitumen royalty obligation where the original GOB adjustments were recorded.

Exploration and evaluation

	Three months ended September 30		Nine months ended September 30	
($ thousands)	**2013**	2012	**2013**	2012
Lease rentals	**969**	1,214	**2,365**	2,461
Geological and geophysical costs [(1)]	**25**	9	**1,298**	341
Lease expiries	**737**	1,708	**1,329**	3,775
Total exploration and evaluation	**1,731**	2,931	**4,992**	6,577

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

Exploration and evaluation (“E&E”) costs include lease rentals on undeveloped acreage, geological and geophysical costs and lease expiries. E&E costs of $1.7 million in the third quarter of 2013 were $1.2 million lower than the prior year as a result of lower lease rentals and expiries due to property dispositions. Year to date E&E costs of $5.0 million in 2013 were 24 percent lower than the prior year with fewer lease expiries, partially offset by additional seismic purchases.

General and administrative (“G&A”) expenses

	Three months ended September 30		Nine months ended September 30	
($ thousands except as noted)	**2013**	2012	**2013**	2012
Cash G&A expense	**4,916**	5,196	**15,081**	17,662
Compensation expense (non-cash)	**689**	417	**2,048**	3,799
Total G&A expense	**5,605**	5,613	**17,129**	21,461
Cash G&A expense – per boe	**2.92**	2.98	**2.95**	3.10
Compensation expense (non-cash) ($/boe)	**0.41**	0.24	**0.40**	0.67

G&A expenses for the third quarter of 2013 totaled $5.6 million consistent with the same period in 2012. For the nine months ended September 30, 2013, G&A decreased 20 percent from $21.5 million in 2012 to $17.1 million in 2013. Cash G&A expense decreased due to reduced staffing levels and lower consulting fees. In the third quarter of 2013, the increase in compensation expense was related to granting of share based awards.

Gains on dispositions

Property dispositions during the first nine months of 2013 have generated net cash proceeds of $78.1 million resulting in gains on dispositions of $51.2 million primarily related to the Elmworth property disposition completed in the first quarter of 2013. The Elmworth property had no production or funds flow from operations and therefore the disposition had no negative effect on Perpetual's 2013 projected production or funds flow. Proceeds from dispositions were applied to reduce outstanding bank debt and to buy back an additional 20 percent interest in WGS LP.

Depletion and depreciation ("D&D")

	Three months ended September 30		Nine months ended September 30	
($ thousands except as noted)	**2013**	2012	**2013**	2012
Depletion and depreciation	**22,555**	26,441	**68,764**	81,886
Per boe	**13.42**	15.16	**13.44**	14.39

Perpetual recorded $22.6 million of depletion and depreciation expense in the third quarter of 2013. On a boe basis, third quarter 2013 D&D expense of $13.42/boe decreased 11 percent from $15.16/boe in 2012 reflecting a lower depletable cost base due to impairment losses recorded at December 31, driven by natural gas reserve reductions at year end associated with low natural gas prices.

Finance expenses

Interest

	Three months ended September 30		Nine months ended September 30	
($ thousands)	**2013**	2012	**2013**	2012
Interest	**7,162**	7,687	**21,575**	24,986
Amortization of debt issue costs	**899**	797	**2,638**	3,027
Interest	**8,061**	8,484	**24,213**	28,013

Perpetual recorded interest expense of $8.1 million during the third quarter of 2013 which included interest on the Corporation's Senior Notes of $3.4 million (Q3 2012 - $3.4 million), interest on convertible debentures of $3.6 million (Q3 2012 - $3.6 million) and interest on bank debt of $1.0 million (Q3 2012 - $1.5 million). The reduction in interest expense on both a quarter and year to date basis compared to their respective periods in 2012 is consistent with reduced outstanding bank debt from property dispositions. Reductions for the nine months ended September 30, 2013 were further realized due to the repayment of $74.9 million convertible debentures which matured in June 2012.

Other finance expenses

	Three months ended September 30		Nine months ended September 30	
($ thousands)	**2013**	2012	**2013**	2012
Accretion on decommissioning obligations	**1,235**	1,141	**3,200**	3,759
Loss (gain) on marketable securities	**(420)**	(729)	**125**	(479)
Loss on call option	**–**	714	**1,274**	714
Gain on retained investment in former subsidiary	**–**	–	**–**	(2,104)
Unrealized gain related to gas storage	**–**	–	**–**	(3,636)
Other finance expenses	**815**	1,126	**4,599**	(1,746)

Other finance expenses for the third quarter of 2013 included accretion on decommissioning obligations of $1.2 million (Q3 2012 - $1.1 million) and a gain of $0.4 million (Q3 2012 - $0.7 million) recorded on the mark-to-market valuation of the Corporation's interest in marketable securities held at the end of the quarter. Other finance expenses in the prior year also included a $0.7 million in unrealized loss related to Perpetual's option to repurchase up to a 30 percent interest in WGS LP.

Funds flow

	For the three months ended September 30			
		2013		2012
	($ thousands)	**($/boe)**	($ thousands)	($/boe)
Revenue [(1)]	**54,725**	**32.55**	47,973	27.51
Royalties	**(5,101)**	**(3.03)**	(2,374)	(1.36)
Operating expenses	**(17,606)**	**(10.47)**	(20,727)	(11.88)
Transportation costs	**(2,352)**	**(1.40)**	(1,965)	(1.13)
Operating netback [(2)]	**29,666**	**17.65**	22,907	13.14
Gas over bitumen royalty adjustments	**1,731**	**1.03**	1,260	0.72
Exploration and evaluation [(4)]	**(969)**	**(0.58)**	(1,214)	(0.70)
Cash G&A	**(4,916)**	**(2.92)**	(5,196)	(2.98)
Interest [(4)]	**(7,162)**	**(4.26)**	(7,687)	(4.41)
Dividends from WGS LP	**300**	**0.18**	690	0.40
Funds flow [(2)]	**18,650**	**11.10**	10,760	6.17

(1) Revenue includes realized gains and losses on derivatives and call option premiums received.

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

(3) 2012 gas storage operating netback includes gas storage revenue net of operating expenses. Revenue and expenses related to the operation of the gas storage business were no longer accounted for on a consolidated basis after April 25, 2012.

(4) Excludes non-cash items.

	For the nine months ended September 30			
		2013		2012
	($ thousands)	**($/boe)**	($ thousands)	($/boe)
Revenue [(1)]	**157,152**	**30.71**	151,202	26.56
Royalties	**(14,965)**	**(2.93)**	(9,123)	(1.60)
Operating expenses	**(57,535)**	**(11.25)**	(60,575)	(10.64)
Transportation costs	**(7,440)**	**(1.45)**	(6,076)	(1.07)
Operating netback [(2)(3)]	**77,212**	**15.08**	75,428	13.25
Gas storage operating netback [(3)]	**–**	**–**	2,229	0.39
Gas over bitumen royalty adjustments	**6,979**	**1.36**	4,691	0.82
Exploration and evaluation [(4)]	**(2,365)**	**(0.46)**	(2,461)	(0.43)
Cash G&A	**(15,081)**	**(2.95)**	(17,662)	(3.10)
Interest [(4)]	**(21,575)**	**(4.22)**	(24,986)	(4.39)
Dividends from WGS LP	**300**	**0.06**	690	0.12
Funds flow [(2)]	**45,470**	**8.87**	37,929	6.66

(1) Revenue includes realized gains and losses on derivatives and call option premiums received.

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

(3) 2012 gas storage operating netback includes gas storage revenue net of operating expenses. Revenue and expenses related to the operation of the gas storage business were no longer accounted for on a consolidated basis after April 25, 2012.

(4) Excludes non-cash items.

Funds flow increased 73 percent to $18.7 million ($0.13 per common share) for the third quarter of 2013 as compared to $10.8 million ($0.07 per common share) for the same period in 2012 reflecting the increase in the operating netback and gas over bitumen royalty adjustments as well as a reduction in G&A and interest expense in 2013.

Net income (loss)

	For the three months ended September 30			
		2013		2012
	($ thousands)	**($/boe)**	($ thousands)	($/boe)
Funds flow [1]	**18,650**	**11.10**	10,760	6.17
Unrealized losses on derivatives	**(1,854)**	**(1.10)**	(21,049)	(12.07)
GOB liability adjustments [2]	**(434)**	**(0.26)**	27,959	16.03
Exploration and evaluation [3]	**(762)**	**(0.45)**	(1,717)	(0.98)
Compensation expense (non-cash)	**(689)**	**(0.41)**	(417)	(0.24)
Gain on dispositions	**60**	**0.04**	7,288	4.18
Depletion and depreciation	**(22,555)**	**(13.42)**	(26,441)	(15.16)
Financial items (non-cash)	**(1,714)**	**(1.02)**	(1,923)	(1.10)
WGS LP net income (loss) and dividends	**2,031**	**1.21**	(618)	(0.35)
Net loss	**(7,267)**	**(4.31)**	(6,158)	(3.52)

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

(2) Includes non-cash GOB adjustments related to dispositions and changes to the liability component of GOB.

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

	For the nine months ended September 30			
		2013		2012
	($ thousands)	**($/boe)**	($ thousands)	($/boe)
Funds flow [1]	**45,470**	**8.87**	37,929	6.66
Unrealized gains (losses) on derivatives	**2,787**	**0.54**	(2,647)	(0.47)
GOB adjustments [2]	**(1,627)**	**(0.32)**	26,287	4.62
Exploration and evaluation [3]	**(2,627)**	**(0.51)**	(4,116)	(0.72)
Compensation expense (non-cash)	**(2,048)**	**(0.40)**	(3,799)	(0.67)
Gain on dispositions	**51,243**	**10.02**	33,354	5.86
Depletion and depreciation	**(68,764)**	**(13.44)**	(81,886)	(14.39)
Financial items (non-cash)	**(7,237)**	**(1.41)**	(1,281)	(0.23)
WGS LP net income (loss) and dividends	**2,541**	**0.50**	(893)	(0.16)
Deferred income tax benefit	**–**	**–**	3,753	0.66
Net income	**19,738**	**3.85**	6,701	1.16

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

(2) Includes non-cash GOB adjustments related to dispositions and changes to the liability component of GOB.

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

The Corporation recorded a net loss of $7.3 million ($0.05 per basic and diluted common share) for the third quarter of 2013 compared to a net loss of $6.2 million ($0.04 per basic and diluted common share) for the prior year. Third quarter 2012 net earnings included the recognition of $29.2 million of GOB revenue related to property dispositions.

LIQUIDITY, CAPITALIZATION AND FINANCIAL RESOURCES

($ thousands except as noted)	**September 30, 2013**	December 31, 2012
Bank debt	**65,890**	77,974
Senior Notes, measured at principal amount	**150,000**	150,000
Convertible debentures, measured at principal amount	**159,779**	159,972
Adjusted working capital deficiency (surplus) (1)	**(330)**	8,637
Net debt	**375,339**	396,583
Common shares outstanding at end of period (thousands)	**148,482**	147,455
Market price at end of period	**0.96**	1.15
Market value of common shares	**142,543**	169,573
Total capitalization (2)	**517,882**	566,156
Net debt as a percentage of total capitalization	**72.5**	70.0
Funds flow (2)	**56,628**	49,087
Net debt to funds flow ratio (times) (2)	**6.6**	8.1

(1) Adjusted working capital deficiency excludes short-term derivative assets and liabilities related to the Corporation's hedging activities, assets and liabilities held for sale and share-based payment liabilities. Working capital does not include approximately $10.2 million in gas over bitumen royalty adjustments not yet received as of September 30, 2013.

(2) See "Non-GAAP measures" in this MD&A. Funds flow is calculated based on trailing funds flow for the most recent four quarters.

Bank debt and working capital

At September 30, 2013, Perpetual had $65.9 million outstanding on its credit facility, down $12.1 million from December 31, 2012 ($78.0 million), as proceeds from property dispositions were applied against outstanding bank debt in 2013. Third quarter capital expenditures of $22.4 million were largely funded by funds flow of $18.7 million with the balance funded through the credit facility.

Perpetual's adjusted working capital surplus at September 30, 2013 was $0.3 million compared to a deficiency of $8.6 million at December 31, 2012. The Corporation will typically have a working capital deficiency as revenues are collected 25 days after the month of delivery, whereas operating and capital expenditures are paid on 30 to 45 day terms. Working capital deficiencies will be funded from future sales revenues and by additional credit facility borrowings as required.

The Corporation's credit facility is with a syndicate of Canadian chartered banks. On April 26, 2013, the Corporation's lenders completed their semi-annual review of the borrowing base under the credit facility. The total availability under the facility was reduced to $125 million from $127.5 million which consists of a demand loan of $95 million; a working capital facility of $15 million, and a $15 million acquisition facility. Total availability under the facility was further reduced to $110 million with the maturity of the acquisition facility on July 31, 2013. On October 31, 2013, the Corporation's lenders completed their semi-annual review of the borrowing base under the credit facility and total availability was confirmed at $110 million. The revolving feature of the credit facility has been extended to October 30, 2014. The next semi-annual redetermination of the Corporation's borrowing base will occur on or before April 30, 2014.

On October 31, 2013, the Corporation's lenders completed their semi-annual review of the borrowing base under the credit facility. The total availability under the credit facility remains at $110 million which includes a demand loan of $95 million and a working capital facility of $15 million. The revolving nature of the credit facility has been extended to October 30, 2014. The next semi-annual redetermination of the Corporation's borrowing base will occur on or before April 30, 2014. At current interest rates and applicable margins, the effective interest rate on the Corporation's bank debt is approximately 5.5 percent. Collateral for the credit facility is provided by a floating-charge debenture covering all existing and acquired property of the Corporation as well as unconditional full liability guarantees from all subsidiaries in respect of amounts borrowed under the facility.

Reconciliation of net debt ($ millions)	
Net debt, December 31, 2012 (1)	396.6
Capital expenditures (2)	72.3
Dispositions, net of acquisitions	(70.3)
Funds flow (3)	(45.5)
Purchase of interest in gas storage (WGS LP) (4)	19.1
Unrealized loss on marketable securities	0.1
Expenditures on decommissioning obligations	1.6
Gas over bitumen royalty adjustments not yet received	1.4
Net debt, September 30, 2013 (1)	**375.3**

(1) Excludes gas over bitumen royalty adjustments not yet received of $10.2 million at September 30, 2013 ($8.8 million at December 31, 2012) which are recorded as a reduction to the gas over bitumen royalty obligation until received.

(2) Capital expenditures consist of exploration and development and other.

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

(4) The Corporation increased its interest in WGS LP from 10 to 30 percent on April 25, 2013.

Senior notes

At September 30, 2013, Perpetual had $150 million of Senior Notes outstanding which mature on March 15, 2018 and bear interest at 8.75 percent, payable semi-annually. The Senior Notes are direct senior unsecured obligations of Perpetual ranking pari passu with all other present and future unsecured and unsubordinated indebtedness of the Corporation. The Senior Notes are carried on the statement of financial position at the par value less unamortized debt issue costs. The fair value of the Senior Notes at November 7, 2013 was $143.6 million.

As part of the Senior Notes indenture and the credit facility, the Corporation has covenants that require the ratios of consolidated debt and consolidated senior debt to 12 month trailing income before interest, taxes and depletion and depreciation to be less than 4 to 1 and 3 to 1, respectively. Consolidated debt is defined as the sum of the balance on the credit facility, Senior Notes and outstanding letters of credit. Consolidated senior debt is defined as consolidated debt less the Senior Notes. Perpetual was in compliance with these covenants at September 30, 2013. The Senior Notes indenture also contains restrictions on certain payments including dividends, retirement of subordinated debt and stock repurchases. Allowable payments are increased by 50 percent of cash flow from operating activities and reduced by restricted payments.

Convertible debentures

At September 30, 2013, the Corporation had outstanding 7.25 percent convertible debentures (7.25% Debentures) that mature on January 15, 2015 as well as 7.0 percent convertible debentures (7.0% Debentures) that mature on December 31, 2015. In June 2013, Perpetual initiated a Normal Course Issuer Bid to purchase a portion of the outstanding convertible debentures for cancellation subject to Toronto Stock Exchange restrictions. During the end of the second quarter and beginning of the third quarter of 2013, the Corporation purchased and cancelled 71,000 7.25% Debentures and 122,000 7.0% Debentures for a total cash outlay of $0.2 million. All series of convertible debentures are repayable on the maturity date in cash or in common shares, at the option of Perpetual. Additional information on convertible debentures is as follows:

Convertible debentures	7.25%	7.00%
Principal issued ($ millions)	100.0	60.0
Principal outstanding ($ millions)	99.9	59.9
Trading symbol on the Toronto Stock Exchange	PMT.DB.D	PMT.DB.E
Maturity date	January 31, 2015	December 31, 2015
Conversion price ($ per common share)	7.50	7.00
Fair market value ($ millions) (1)	97.6	55.4

(1) Fair values of debentures are calculated by multiplying the number of debentures outstanding at November 7, 2013 by the quoted market price per debenture at that date.

Equity

Perpetual's total capitalization was $517.9 million at September 30, 2013. Net debt to total capitalization increased to 72.5 percent at September 30, 2013 as compared to 70.0 percent at December 31, 2012. The increase is related to a decrease in market value of Perpetual's commons shares which was slightly higher than reductions made to net debt during 2013. Reductions to net debt were achieved with proceeds from the disposition of Elmworth and funds flow generated from operations which were partially offset by capital expenditures and acquisitions.

Weighted average common shares outstanding for the nine months ended September 30, 2013 totaled 148.4 million (2012 – 147.1 million). On November 7, 2013 there were 148.5 million common shares outstanding.

SUMMARY OF QUARTERLY RESULTS

($ thousands except where noted)	**Q3 2013**	Q2 2013	Q1 2013	Q4 2012
Oil and natural gas revenues (1)	**52,555**	57,187	42,477	44,468
Production				
Natural gas (MMcf/d)	**85.3**	91.9	88.6	88.3
Oil and NGL (boe/d)	**4,064**	4,384	3,483	3,536
Total (boe/d)	**18,274**	19,708	18,244	18,250
Funds flow (2)	**18,650**	17,286	9,534	11,158
Per common share - basic	**0.13**	0.12	0.06	0.08
Net income (loss)	**(7,267)**	(5,327)	32,332	(52,879)
Per common share - basic	**(0.05)**	(0.04)	0.22	(0.36)
- diluted	**(0.05)**	(0.04)	0.21	(0.36)
Realized commodity price ($/boe) (3)	**32.55**	32.60	26.80	31.08
Average AECO Monthly Index price ($/Mcf)	**2.82**	3.59	3.08	3.06
WTI light oil ($US/bbl)	**105.82**	94.22	93.40	94.21
WCS differential ($US/bbl)	**(17.48)**	(19.16)	(31.96)	18.11

(1) Excludes realized gains (losses) on derivatives, but includes gas storage revenue prior to April 25, 2012.

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

(3) Realized natural gas price includes realized gains and losses on financial hedging and physical forward sales contracts, and oil and NGL revenues measured on a per boe basis.

($ thousands except where noted)	Q3 2012	Q2 2012	Q1 2012	Q4 2011 [4]
Oil and natural gas revenues [1]	40,028	40,444	51,197	59,859
Production				
Natural gas (MMcf/d)	93.7	105.1	113.7	126.8
Oil and NGL (boe/d)	3,336	3,446	3,474	2,481
Total (boe/d)	18,955	20,962	22,428	23,617
Funds flow [2]	10,760	12,668	14,501	11,586
Per common share – basic	0.07	0.09	0.10	0.08
Net income (loss)	(6,158)	25,899	(13,040)	(42,998)
Per common share – basic	(0.04)	0.18	(0.09)	(0.29)
– diluted	(0.04)	0.17	(0.09)	(0.29)
Realized commodity price ($/boe) [3]	27.51	26.07	26.21	27.48
Average AECO Monthly Index price ($/Mcf)	2.19	1.84	2.52	3.44
WTI light oil ($US/bbl)	92.22	93.49	100.51	94.05
WCS differential ($US/bbl)	(21.72)	(22.87)	(21.42)	(10.48)

(1) Excludes realized gains (losses) on derivatives, but includes gas storage revenue prior to April 25, 2012.

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

(3) Realized natural gas price includes realized gains and losses on financial hedging and physical forward sales contracts, and oil and NGL revenues measured on a per boe basis.

(4) Perpetual's financial statements for the year and three months ended December 31, 2011 were amended to correct certain immaterial errors involving oil revenues, operating expense and G&A expenses. For additional information please see note 2 to the annual consolidated financial statements for the year ended December 31, 2012.

Oil and natural gas revenues are a function of production levels and oil and natural gas prices. Revenues were lowest in the third quarter of 2012 due to low AECO Monthly Index prices combined with reduced natural gas production compared to previous quarters as well as slightly lower oil prices. In addition, beginning on April 25, 2012, no WGS LP revenue was consolidated within oil and natural gas revenues due to the Corporation's investment in WGS LP being accounted for as an equity-method investment. Revenues increased considerably during the second and third quarters of 2013 with increased oil and NGL production and higher commodity prices.

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

Net income (loss) is a function of funds flows and non-cash charges such as depletion, impairment losses, gains and losses on asset dispositions and unrealized gains (losses) on derivatives. Due to the volatility of natural gas prices and the Corporation's risk management position, net income (loss) also fluctuate with changes in forward commodity prices as of each balance sheet date. Perpetual has incurred net losses in most quarters presented as a result of persistently low natural gas prices during the two-year period. The largest net loss was in the fourth quarter of 2012, due in part to an impairment charge of $54.3 million resulting from reserve reductions at year end due to low natural gas prices The Corporation reported net income of $32.3 million in the first quarter of 2013 as a result of a gain on the disposition of Elmworth and $25.9 million in the second quarter of 2012 as a result of a gain on sale of 90 percent of WGS LP of $40.6 million.

OUTLOOK AND SENSITIVITIES

Perpetual expects capital spending for 2013 to be approximately $90 million. Consistent with the strategy during the nine months ended September 30, 2013, capital spending in the fourth quarter of 2013 will be driven by Perpetual's commodity diversification strategy, with spending focused on Mannville heavy oil and NGL in the Alberta deep basin. Planned capital spending totaling approximately $20 million for the fourth quarter of 2013 includes four (4.0 net) additional Mannville heavy oil wells and the implementation of a waterflood pilot in the Sparky Manville I2I pool. In West Central Alberta, the remaining four (2.0 net) liquids-rich natural gas wells in the West Edson program will be drilled along with minor facility and infrastructure spending on the Corporation's West Edson facilities.

Capital spending for the first quarter of 2014 is expected to be $26 to $32 million, with expenditures concentrated on the Corporation's proven diversifying assets. Development and exploration in Mannville for heavy oil will continue with the drilling of up to ten wells and additional waterflood implementation activities. In the greater Edson area, wells drilled in the fourth quarter of 2013 will be completed and brought on production and up to two additional wells will be drilled to maintain production at capacity at the upgraded facility in West Edson and to continue mineral leases and grow production at Edson.

Additionally, capital will be directed to winter-only access shallow gas assets in northeast Alberta to execute high return facility optimization projects, well workovers and uphole recompletions. Perpetual may adjust its planned capital spending program based on prevailing commodity prices as allowed by the Corporation's diverse inventory of exploration and development opportunities.

Sensitivities

Perpetual estimates that 2013 funds flow will total $55 to $60 million based on current forward commodity prices with oil and liquids production averaging close to 3,900 bbl/d and natural gas sales averaging approximately 90 MMcf/d. Below is a table that shows sensitivities of Perpetual's fourth quarter 2013 forecasted funds flow to operational changes and changes in the business environment:

Funds flow sensitivity analysis ($ thousands)	Change	Estimated impact on fourth quarter 2013 funds flow
Business Environment		
Natural gas price at AECO	$0.25/Mcf	2,100
Oil price at WTI	$5.00/bbl	1,600
Interest rate on bank debt	1%	175
Operational		
Natural gas production	5 MMcf/d	1,500
Oil and NGL production	100 bbl/d	700
Operating expenses	$0.50/boe	900

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.

ACCOUNTING

Future accounting pronouncements

The International Accounting Standards Board (IASB) and International Financial reporting Interpretations Committee (IFRIC) have issued the following standard that has not been applied in preparing the Corporation's condensed interim consolidated financial statements and accompanying notes for the three and nine months ended September 30, 2013 as its effective date falls within annual periods beginning subsequent to the current reporting period.

Proposed standard	Description	Previous standard	Effective date
IFRS 9 Financial Instruments	Addresses the classification and measurement of financial assets and financial liabilities	IAS 39 – Financial Instruments: Recognition and Measurement	Deferred

On July 24, 2013, the IASB tentatively decided to defer the mandatory effective date of IFRS 9 and that the mandatory effective date should be left open pending the finalization of the impairment and classification and measurement requirements. IFRS 9 would still be available for early application. Perpetual has not yet evaluated the impact of this new standard on financial statement measurements and disclosures.

INTERNAL CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

The Corporations' Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of disclosure controls and procedures and internal control over financial reporting defined in Canada under National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. There were no changes in the Corporation's internal control over financial reporting during the period beginning on July 1, 2013 and ended September 30, 2013 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

ADVISORIES

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

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

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

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

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

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

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

Funds flow: Management uses cash flow from operating activities before changes in non-cash working capital, gas over bitumen royalty adjustments received or not yet received, settlement of decommissioning obligations and certain E&E costs described below ("funds flow"), funds flow per common share and annualized funds flow to analyze operating performance and leverage. Funds flow is reconciled to its closest GAAP measure, cash flow from operating activities, as follows.

Funds flow GAAP reconciliation	Three months ended September 30		Nine months ended September 30	
($ thousands, except per common share amounts)	**2013**	2012	**2013**	2012
Cash flow from operating activities	**17,817**	8,723	**39,980**	35,072
Exploration and evaluation costs [(1)]	**25**	9	**1,298**	341
Expenditures on decommissioning obligations	**1,174**	449	**1,638**	1,608
Gas over bitumen royalty obligation adjustments not yet received	**292**	557	**1,436**	1,061
Changes in non-cash operating working capital	**(658)**	1,022	**1,118**	(153)
Funds flow	**18,650**	10,760	**45,470**	37,929
Funds flow per common share [(2)]	**0.13**	0.07	**0.31**	0.26

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

(2) Based on weighted average common shares outstanding for the period.

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

Net debt and net bank debt: Net bank debt is measured as bank debt including net working capital (deficiency). Net bank debt excludes short term derivative assets and liabilities related to the Corporation's hedging activities, the current portion of convertible debentures, restricted cash and liabilities related to Perpetual's stock option plan. Net debt includes the Senior Notes and convertible debentures, measured at principal amount. Net bank debt and net debt are used by management to analyze leverage.

Total capitalization: Total capitalization is equal to net debt (net bank debt plus Senior Notes and convertible debentures, measured at their principal amount) 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.

BOE AND MCFE CONVERSIONS: Barrel of oil equivalent ("boe") and Mcf equivalent ("Mcfe") may be misleading, particularly if used in isolation. In accordance with National Instrument 51-101 ("NI 51-101"), a conversion ratio for oil of 1 bbl: 6 Mcf 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 1 bbl: 6 Mcf 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 1 bbl: 6 Mcf. For natural gas, gigajoules ("GJ") are converted to Mcf at a conversion ratio of 1.0546 GJ: 1 Mcf.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at	September 30, 2013	December 31, 2012
(Cdn$ thousands, unaudited)		
Assets		
Current assets		
Accounts receivable	**$ 34,187**	$ 33,787
Prepaid expenses and deposits	**1,686**	2,928
Marketable securities	**1,838**	1,963
Derivatives (note 12)	**2,087**	3,703
Assets held for sale (note 3)	**-**	22,321
	39,798	64,702
Property, plant and equipment (note 4)	**554,548**	570,415
Exploration and evaluation (note 5)	**88,648**	80,494
Equity-method investment (note 6)	**29,469**	5,493
	672,665	656,402
Total assets	**$ 712,463**	$ 721,104
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 37,381**	$ 47,315
Share based payment liability	**11**	24
Derivatives (note 12)	**5,385**	1,452
Liabilities associated with assets held for sale (note 3)	**-**	93
	42,777	48,884
Derivatives (note 12)	**3,646**	8,402
Bank indebtedness (note 8)	**65,890**	77,974
Senior notes	**147,583**	147,177
Convertible debentures	**153,718**	151,673
Gas over bitumen royalty obligation	**44,744**	44,553
Decommissioning obligations (note 7)	**196,221**	206,379
	611,802	636,158
Total liabilities	**654,579**	685,042
Equity		
Share capital	**1,257,301**	1,255,450
Equity component of convertible debentures	**13,971**	13,988
Contributed surplus	**19,558**	19,308
Deficit	**(1,232,946)**	(1,252,684)
Total equity	**57,884**	36,062
Total liabilities and equity	**$ 712,463**	$ 721,104

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	**2013**	2012
(Cdn$ thousands, except per share amounts, unaudited)				
Revenue				
Oil and natural gas	**$ 52,555**	$ 40,028	**$ 152,219**	$ 131,669
Royalties	**(5,101)**	(2,374)	**(14,965)**	(9,123)
	47,454	37,654	**137,254**	122,546
Change in fair value of commodity price derivatives (note 12)	**316**	(13,104)	**7,720**	21,146
Gas over bitumen	**1,297**	29,219	**5,352**	30,978
	49,067	53,769	**150,326**	174,670
Expenses				
Production and operating	**17,606**	20,727	**57,535**	62,606
Transportation	**2,352**	1,965	**7,440**	6,076
Exploration and evaluation (note 5)	**1,731**	2,931	**4,992**	6,577
General and administrative	**5,605**	5,613	**17,129**	21,461
Gain on dispositions (notes 3 and 4)	**(60)**	(7,288)	**(51,243)**	(33,354)
Depletion and depreciation (note 4)	**22,555**	26,441	**68,764**	81,886
	49,789	50,389	**104,617**	145,252
Income (loss) from operating activities	**(722)**	3,380	**45,709**	29,418
Financial items				
Interest (note 9)	**8,061**	8,484	**24,213**	28,013
Accretion on decommissioning obligations (note 7)	**1,235**	1,141	**3,200**	3,759
(Gain) loss on marketable securities	**(420)**	(729)	**125**	(479)
Loss on call option	**-**	714	**1,274**	714
Gain on retained investment in former subsidiary	**-**	-	**-**	(2,104)
Unrealized gain on gas storage derivative	**-**	-	**-**	(3,636)
	8,876	9,610	**28,812**	26,267
Share of net income (loss) of equity-method investment (note 6)	**2,331**	72	**2,841**	(203)
Income (loss) before income tax	**(7,267)**	(6,158)	**19,738**	2,948
Deferred income tax benefit	**-**	-	**-**	(3,753)
Net income (loss) and comprehensive income (loss)	**$ (7,267)**	$ (6,158)	**$ 19,738**	$ 6,701
Income (loss) per share (note 13)				
Basic and diluted	**$ (0.05)**	$ (0.04)	**$ 0.13**	$ 0.05

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Cdn$ thousands, unaudited)	Share capital	Equity component of convertible debentures	Contributed surplus	Deficit	Total equity
Balance at January 1, 2013	$ 1,255,450	$ 13,988	$ 19,308	$ (1,252,684)	$ 36,062
Net income	-	-	-	19,738	19,738
Common shares issued – Restricted Rights Plan	1,473	-	(1,473)	-	-
Common shares issued – Share Option Plan	43	-	(20)	-	23
Common shares issued – Performance Share Units Plan	335	-	(335)	-	-
Share based compensation expense	-	-	2,048	-	2,048
Share based payment liability	-	-	13	-	13
Redemption of convertible debentures	-	(17)	17	-	-
Balance at September 30, 2013	**$ 1,257,301**	**$ 13,971**	**$ 19,558**	**$(1,232,946)**	**$ 57,884**

(Cdn$ thousands, unaudited)	Share capital	Equity component of convertible debentures	Contributed surplus	Deficit	Total equity
Balance at January 1, 2012	$ 1,254,273	$ 13,988	$ 15,496	$ (1,206,506)	$ 77,251
Net income	-	-	-	6,701	6,701
Common shares issued – Restricted Rights Plan	695	-	(695)	-	-
Share based compensation expense	-	-	3,799	-	3,799
Share based payment liability	-	-	482	-	482
Balance at September 30, 2012	$ 1,254,968	$ 13,988	$ 19,082	$ (1,199,805)	$ 88,233

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	**2013**	2012
(Cdn$ thousands, unaudited)				
Operating activities				
Net income (loss)	**$ (7,267)**	$ (6,158)	**$ 19,738**	$ 6,701
Adjustments to add (deduct) non-cash items:				
Unrealized loss (gain) on commodity price derivatives	**1,854**	21,049	**(2,787)**	2,647
Exploration and evaluation	**737**	1,708	**1,329**	3,775
Share based compensation	**689**	417	**2,048**	3,799
Gain on dispositions	**(60)**	(7,288)	**(51,243)**	(33,354)
Depletion and depreciation	**22,555**	26,441	**68,764**	81,886
Interest	**899**	797	**2,638**	3,027
Accretion on decommissioning obligations	**1,235**	1,141	**3,200**	3,759
(Gain) loss on marketable securities	**(420)**	(729)	**125**	(479)
Loss on call option	**-**	714	**1,274**	714
Gain on retained investment in former subsidiary	**-**	-	**-**	(2,104)
Unrealized gain on gas storage obligation derivative	**-**	-	**-**	(3,636)
Share of net (income) loss of equity-method investment	**(2,331)**	(72)	**(2,841)**	203
Deferred income tax benefit	**-**	-	**-**	(3,753)
Share of dividends from equity-method investment (note 6)	**300**	690	**300**	690
Gas over bitumen royalty obligation adjustments	**434**	522	**1,627**	2,194
Gas over bitumen royalty obligation adjustments not yet received	**(292)**	(557)	**(1,436)**	(1,061)
Gas over bitumen royalty obligation adjustments on dispositions	**-**	(28,481)	**-**	(28,481)
Expenditures on decommissioning obligations	**(1,174)**	(449)	**(1,638)**	(1,608)
Change in non-cash working capital (note 10)	**658**	(1,022)	**(1,118)**	153
Net cash from operating activities	**17,817**	8,723	**39,980**	35,072
Financing activities				
Change in bank indebtedness	**7,029**	(3,945)	**(12,084)**	(49,273)
Redemption of convertible debentures	**(85)**	-	**(187)**	(74,925)
Common shares issued	**3**	-	**23**	-
Change in non-cash working capital (note 10)	**(6,121)**	(6,077)	**(4,092)**	(4,041)
Net cash from (used in) financing activities	**826**	(10,022)	**(16,340)**	(128,239)
Investing activities				
Acquisitions	**(566)**	(1,753)	**(7,835)**	(2,604)
Capital expenditures	**(22,325)**	(17,913)	**(70,868)**	(58,249)
Proceeds on dispositions (notes 3 and 4)	**60**	16,207	**78,074**	160,247
Proceeds on sale of marketable securities	**-**	-	**-**	2,120
Increase interest in equity-method investment (note 6)	**-**	-	**(19,129)**	-
Change in non-cash working capital (note 10)	**4,188**	4,758	**(3,882)**	(8,347)
Net cash from (used in) investing activities	**(18,643)**	1,299	**(23,640)**	93,167
Change in cash and cash equivalents	**-**	-	**-**	-
Cash and cash equivalents, beginning of period	**-**	-	**-**	-
Cash and cash equivalents, end of period	**$ -**	$ -	**$ -**	$ -
Interest paid	**$ 11,194**	$ 11,680	**$ 25,850**	$ 29,020

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

SELECTED NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and nine months ended September 30, 2013

(All tabular amounts are in Cdn$ thousands, except where otherwise noted)

1. REPORTING ENTITY

Perpetual Energy Inc. ("Perpetual" or the "Corporation") is a Canadian corporation engaged in the exploration, development, and marketing of oil and gas based energy in Alberta, Canada. Historically the Corporation concentrated on conventional shallow gas properties in eastern Alberta as a basis for stable production. In recent years, the Corporation has diversified its asset portfolio to include conventional heavy oil, resource-style tight gas, liquids rich gas in the Alberta deep basin, and several long-term bitumen resource properties.

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

The condensed interim consolidated financial statements of the Corporation as at and for the nine months ended September 30, 2013 are comprised of the accounts of Perpetual and its wholly owned subsidiaries, Perpetual Energy Operating Corp. and Perpetual Operating Trust, and the Corporation's interest in jointly controlled entities.

2. BASIS OF PREPARATION

a) Statement of compliance

These condensed interim consolidated financial statements are unaudited and have been prepared in accordance with IAS 34 Interim Financial Reporting and do not include all of the information required for full annual financial statements. These condensed interim consolidated financial statements should be read in conjunction with the Corporation's consolidated financial statements as at and for the year ended December 31, 2012 which were prepared in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Except for the newly adopted policies described below, the accounting policies, basis of measurement, and critical accounting judgments and significant estimates used to prepare the annual consolidated financial statements as at and for the year ended December 31, 2012 have been applied in the preparation of these 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 November 7, 2013.

b) Newly adopted accounting policies

The accounting policies applied by the Corporation in these condensed interim consolidated financial statements are the same as those applied by the Corporation in its consolidated annual financial statements as at and for the year ended December 31, 2012 with the exception of the following new policies adopted:

i) New pronouncements

Effective January 1, 2013, Perpetual has adopted the following new standards and amendments as issued by the IASB. Adoption of these new standards and amendments has had no measurement impact on the Corporation's consolidated financial statements. The enhanced disclosure requirements of IFRS 12, IFRS 13, and amended IFRS 7 have been reflected in these consolidated financial statements and notes.

i) IFRS 10, "Consolidated Financial Statements" replaces the guidance in IAS 27 "Consolidated and Separate Financial Statements". The new standard provides a single model to be applied in the control analysis for all investees, eliminating the current risk and rewards approach.

ii) IFRS 11, "Joint Arrangements" replaces the guidance in IAS 31, "Interests in Joint Ventures" and establishes criteria for classification of joint arrangements as either joint operations or joint ventures. The new standard mandates equity-method accounting for joint ventures; these entities no longer have a choice between proportionate consolidation and equity accounting. An entity's interest in a joint operation, where the parties have rights to the assets and obligations for the liabilities, is to be accounted for on the basis of the entity's interest in the assets, liabilities, revenues and expenses of the operation. These relationships are accounted for as joint operations similar to jointly controlled assets or operations under IAS 31.

iii) IFRS 12, "Disclosure of Interest in Other Entities" provides the required disclosures for entities that have interests in subsidiaries or joint arrangements. Disclosure requirements under the new standard aim to provide information that will assist financial statement users in their understanding of the nature, risks, and financial effects of an interest in other entities.

iv) IFRS 13, "Fair Value Measurement" provides a single source of fair value measurement guidance by replacing the guidance contained in other IFRSs. The new standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. IFRS 13 also establishes a framework for measurement of fair value and requires disclosures that allow users to evaluate fair value methodology and the inputs used.

v) IFRS 7, "Financial Instruments: Disclosures" was amended to provide additional guidance on disclosure of financial assets and financial liabilities offset in the statement of financial position.

3. ASSETS HELD FOR SALE

During the first quarter of 2013, the Corporation closed the dispositions of all assets and associated liabilities presented as held for sale at December 31, 2012 for net cash proceeds of $76.8 million resulting in a gain on dispositions of $51.8 million. The dispositions consisted principally of the Elmworth property but also included non-core oil and natural gas properties located in the Corporation's West Central Cash Generating Unit.

4. PROPERTY, PLANT AND EQUIPMENT

	Oil and Gas Properties	Corporate Assets	Total
Cost			
December 31, 2011	2,640,472	6,149	2,646,621
Additions	76,136	221	76,357
Change in decommissioning obligations estimates	(10,352)	-	(10,352)
Transferred from exploration and evaluation	5,346	-	5,346
Acquisitions	1,113	-	1,113
Dispositions	(234,566)	(83)	(234,649)
Reclassification to assets held for sale	(4,709)	-	(4,709)
December 31, 2012	2,473,440	6,287	2,479,727
Additions	67,027	118	67,145
Acquisitions	583	-	583
Transferred from exploration and evaluation	1,214	-	1,214
Dispositions	(8,952)	-	(8,952)
Change in decommissioning obligation estimates	(12,574)	-	(12,574)
Reclassification to assets held for sale	(1,581)	-	(1,581)
September 30, 2013	**2,519,157**	**6,405**	**2,525,562**
Accumulated depletion, depreciation and impairment losses			
December 31, 2011	(1,813,881)	(4,812)	(1,818,693)
Depletion and depreciation	(104,964)	(703)	(105,667)
Dispositions	69,239	34	69,273
Impairment losses	(54,313)	-	(54,313)
Reclassification to assets held for sale	88	-	88
December 31, 2012	(1,903,831)	(5,481)	(1,909,312)
Depletion and depreciation	(68,391)	(373)	(68,764)
Dispositions	7,062	-	7,062
September 30, 2013	**(1,965,160)**	**(5,854)**	**(1,971,014)**
Carrying amount			
December 31, 2012	569,609	806	570,415
September 30, 2013	**553,997**	**551**	**554,548**

At September 30, 2013, property, plant and equipment included $7.2 million (December 31, 2012 – $7.3 million) of costs currently not subject to depletion and $19.6 million (December 31, 2012 – $19.6 million) of costs related to shut-in gas over bitumen reserves which are not being depleted due to the non-producing status of the wells in the affected properties.

During the nine months ended September 30, 2013, the Corporation disposed of oil and natural gas properties, including those classified as assets held for sale as at December 31, 2012 (note 3), for total cash proceeds of $78.1 million (2012 – $160.2 million). Gains on dispositions totaling $51.2 million (2012 – $33.4 million) were recorded in net income.

5. EXPLORATION AND EVALUATION

Cost	
December 31, 2011	106,763
Additions	4,765
Acquisitions	1,294
Dispositions	(3,524)
Transferred to property, plant and equipment	(5,346)
Non-cash exploration and evaluation expense	(5,758)
Reclassification to assets held for sale	(17,700)
December 31, 2012	80,494
Additions	5,949
Acquisitions	5,941
Transferred to property, plant and equipment	(1,214)
Non-cash exploration and evaluation expense	(1,329)
Reclassification to assets held for sale	(1,193)
September 30, 2013	**88,648**

During the nine months ended September 30, 2013, $3.7 million (2012 – $2.8 million) in costs were charged directly to exploration and evaluation expense in net income.

6. EQUITY-METHOD INVESTMENT

Perpetual's equity method investment consists of a 30 percent interest in Warwick Gas Storage Limited Partnership ("WGS LP") which operates a gas storage facility in Alberta, Canada.

Prior to April 25, 2012, WGS LP was a wholly owned subsidiary of Perpetual. On April 25, 2012, Perpetual sold a 90 percent interest in WGS LP for cash proceeds of $80.9 million. As part of the sale Perpetual continues to provide management and operational services to WGS LP for an annual fee. The Company also retained an option, exercisable within one year of closing, to buy back from the purchaser up to a 30 percent additional ownership interest in WGS LP at the same price as the initial sale plus working capital and other adjustments, less any dividends paid, for a final ownership interest post any exercise of the buy-back option of up to 40 percent ("WGS Call Option").

On April 25, 2013, Perpetual exercised the WGS Call Option to buy back an additional 20 percent interest in WGS LP for total consideration of $21.4 million comprised of $19.1 million in cash and $2.3 million related to the value of the option. The transaction closed on May 24, 2013 resulting in an increase in Perpetual's total ownership interest to 30 percent. The unexercised portion of the option has expired.

For the nine months ended September 30, 2013, Perpetual recognized income of $2.8 million (2012 – a loss of $0.2 million) and dividends of $0.3 million (2012 - $0.7 million) representing its share of net income and dividends declared by WGS LP.

7. DECOMMISSIONING OBLIGATIONS

The following table reconciles the Corporation's decommissioning obligations:

Balance, December 31, 2011	242,860
Obligations acquired	45
Obligations incurred	1,308
Obligations disposed	(30,377)
Change in risk free rate	9,569
Change in estimates	(19,921)
Obligations settled	(1,825)
Accretion	4,813
Reclassification to liabilities associated with assets held for sale	(93)
December 31, 2012	206,379
Obligations incurred	915
Obligations disposed	(61)
Change in risk free rate	(12,574)
Obligations settled	(1,638)
Accretion	3,200
September 30, 2013	**196,221**

The provision for decommissioning obligations as at September 30, 2013 was calculated using a weighted average risk free rate of 2.6 percent (December 31, 2012 – 2.2 percent).

8. BANK INDEBTEDNESS

The Corporation's credit facility is with a syndicate of Canadian chartered banks. On April 26, 2013, the Corporation's lenders completed their semi-annual review of the borrowing base under the credit facility. The total availability under the facility was reduced to $125 million from $127.5 million which consists of a demand loan of $95 million; a working capital facility of $15 million, and a $15 million acquisition facility. Total availability under the facility was further reduced to $110 million with the maturity of the acquisition facility on July 31, 2013. On October 31, 2013, the Corporation's lenders completed their semi-annual review of the borrowing base under the credit facility and total availability was confirmed at $110 million. The revolving feature of the credit facility has been extended to October 30, 2014. The next semi-annual redetermination of the Corporation's borrowing base will occur on or before April 30, 2014.

The Corporation has covenants that require 12 month trailing income before interest, taxes and depletion and depreciation to consolidated debt and consolidated senior debt to be less than 4:0 to 1:0 and 3:0 to 1:0, respectively. Consolidated debt is defined as the sum of the Corporation's period end balance of the credit facility, Senior Notes and outstanding letters of credit ("consolidated debt"). Consolidated senior debt is defined as the sum of consolidated debt less the period end balance of the Senior Notes. The Corporation was in compliance with the lenders' covenants at September 30, 2013. In addition to amounts outstanding under the credit facility, the Corporation has outstanding letters of credit in the amount of $5.8 million (December 31, 2012 – $7.6 million). Collateral for the credit facility is provided by a floating-charge debenture covering all existing and acquired property of the Corporation, as well as unconditional full liability guarantees from all subsidiaries in respect of amounts borrowed under the credit facility.

Advances under the credit facility are made in the form of Banker's Acceptances ("BA"), prime rate loans or letters of credit. In the case of BA advances, interest is a function of the BA rate plus a margin based on the Corporation's current ratio of debt to cash flow. In the case of prime rate loans, interest is charged at the lenders' prime rate plus margin. The effective interest rate on outstanding amounts at September 30, 2013 was 5.5 percent (December 31, 2012 – 5.5 percent).

9. INTEREST

The components of interest are as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	**2013**	2012
Interest on convertible debentures	**3,619**	3,561	**10,800**	13,635
Interest on senior notes	**3,445**	3,445	**10,221**	10,260
Interest on bank indebtedness	**997**	1,478	**3,192**	4,118
Interest	**8,061**	8,484	**24,213**	28,013

10. NON-CASH WORKING CAPITAL INFORMATION

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	**2013**	2012
Accounts receivable	**(1,014)**	(19)	**(400)**	4,324
Prepaid expenses and deposits	**(627)**	(679)	**1,242**	617
Accounts payable and accrued liabilities	**366**	(1,643)	**(9,934)**	(17,176)
Change in non-cash working capital	**(1,275)**	(2,341)	**(9,092)**	(12,235)

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	**2013**	2012
Operating	**658**	(1,022)	**(1,118)**	153
Financing	**(6,121)**	(6,077)	**(4,092)**	(4,041)
Investing	**4,188**	4,758	**(3,882)**	(8,347)
Change in non-cash working capital [(1)]	**(1,275)**	(2,341)	**(9,092)**	(12,235)

(1) Change in non-cash working capital for the nine months ended September 30, 2012 includes working capital balances reclassified to assets held for sale.

Comparative period non-cash working capital amounts related to interest on debt instruments that were previously included in cash flows from operating activities were reclassified to cash flows from financing activities on the statement of cash flows.

11. COMMODITY AND FOREIGN EXCHANGE CONTRACTS

Realized gains on commodity price derivatives recognized in net income for the nine months ended September 30, 2013 were $3.9 million (2012 – $23.7 million). These realized gains included $0.9 million in respect of settlement of contracts prior to maturity (2012 – nil).

Natural gas contracts

At September 30, 2013, the Corporation had entered into forward gas sales arrangements at AECO as follows:

Type of Contract	Perpetual Sold/Bought	Volumes at AECO (GJ/d)	Price ($/GJ)	Term
Financial	sold	20,000	$2.52	October 2013
Physical	sold	5,000	$2.45	October 2013
Financial	bought	(5,000)	$3.07	October 2013 – December 2013
Financial [(1)]	sold	75,000	$3.27	October 2013 – December 2013
Financial	sold	10,000	$3.28	November 2013
Financial	bought	(30,000)	$3.20	December 2013

(1) Of these derivative transactions, 10,000 GJ/d is part of a paired transaction in which the proceeds from the sale of a December 31, 2013 oil swaption were used to fund the 2013 natural gas contract at the price indicated.

At September 30, 2013, the Corporation had entered into the following financial call option gas sales arrangements, whereby the Corporation's counterparty has the right to settle the specified volumes of natural gas at the specified prices in the future periods. Any subsequent changes in the fair values of the call options will be included in change in fair values of commodity derivatives in net income or loss.

Type of Contract	Perpetual Sold/Bought	Volumes at AECO (GJ/d)	Price ($/GJ)	Term
Financial	sold	10,000	$4.25	January 2014 – December 2014

At September 30, 2013, the Corporation had entered into financial and natural gas sales arrangements to fix the basis differential between the New York Mercantile Exchange ("NYMEX") and AECO trading hubs as follows. The price at which this contract settles is equal to the NYMEX index less a fixed basis amount.

Type of Contract	Perpetual Sold/Bought	Volumes at NYMEX-AECO (MMBtu/d)	Price ($/MMBtu)	Term
Financial	sold	2,500	($0.42)	November 2013 – March 2014
Financial	sold	5,000	($0.38)	December 2013

Oil contracts

At September 30, 2013, the Corporation had entered into financial and forward physical oil sales arrangements to fix the basis differential between the West Texas Intermediate ("WTI") and Western Canadian Select ("WCS") trading hubs as follows. The price at which these contracts settle is equal to the WTI index less a fixed basis amount.

Type of Contract	Perpetual Sold/Bought	Volumes at WTI-WCS (bbl/d)	Differential ($USD/bbl)	Term
Financial	sold	2,250	($22.79)	October 2013 – December 2013
Financial	sold	1,000	($22.63)	January 2014 – December 2014

At September 30, 2013, the Corporation had entered into the following fixed price oil sales arrangements:

Type of Contract	Perpetual Sold/Bought	Volumes at WTI (bbl/d)	Price ($USD/bbl)	Term
Financial	sold	500	$102.60	October 2013 – November 2013
Financial	bought	(500)	$103.25	October 2013 – November 2013

At September 30, 2013 the Corporation had entered into the following costless collar oil sales arrangements:

Type of Contract	Volumes at WTI (bbl/d)	Floor price ($USD/bbl)	Ceiling price ($USD/bbl)	Term
Collar	500	$95.00	$108.75	October 2013 – December 2013
Collar	500	$80.00	$89.65	October 2013 – December 2013
Collar	250	$90.00	$97.00	October 2013 – December 2013
Collar (1)	500	$95.00	$118.15	October 2013 – December 2013
Collar	500	$85.00	$91.10	January 2014 – December 2014
Collar	500	$85.00	$91.20	January 2014 – December 2014
Collar (2)	500	$90.00	$103.15	January 2014 – December 2014

(1) In this collar arrangement Perpetual received a ceiling price above the market price for such collars, and in exchange should the WTI index settle above $USD118.15 per bbl in any month during the contract period Perpetual will receive a price of $USD100.00 per bbl.

(2) In this collar arrangement Perpetual received a ceiling price above the market price for such collars, and in exchange should the WTI settle above $USD103.15 per bbl in any month during the contract period Perpetual will receive a price of $USD93.00 per bbl.

At September 30, 2013, the Corporation had entered into the following financial call option oil sales arrangements, whereby the Corporation's counterparty has the right to settle specified volumes of oil at specified prices in the future periods. Any subsequent changes in the fair values of the call options are included in change in fair values of commodity derivatives in net income or loss.

Type of Contract	Perpetual Sold/Bought	Volumes at WTI (bbl/d)	Price ($USD/bbl)	Term
Financial	sold	1,000	$105.00	January 2014 – December 2014
Financial	sold	1,000	$105.00	January 2014 – December 2014
Financial (1)	sold	1,000	$90.00	January 2014 – December 2014
Financial	sold	500	$100.00	January 2015 – December 2015
Financial	sold	500	$100.00	January 2015 – December 2015
Financial	sold	500	$100.00	January 2015 – December 2015

(1) In 2012, the Corporation entered into a financial oil call swaption, whereby the Corporation's counterparty has the right to exercise the call option on December 31, 2013 or it expires. If exercised, the Corporation will be entered into the contract. This swaption is part of a paired transaction in which the proceeds from the sale of the swaption were used to fund the 2013 gas price.

At September 30, 2013, the Corporation had entered into the following fade-in swap agreement. In this arrangement, if the WTI index settles at or above the strike price in any month the Corporation will receive the fade-in price, and if the index settles below the strike price, the Corporation will receive the strike price.

Type of Contract	Perpetual Sold/Bought	Volumes at WTI (bbl/d)	Fade - in Price ($USD/bbl)	Strike Price ($USD/bbl)	Term
Financial	sold	500	$90.25	$82.00	October 2013 – December 2013

Foreign exchange contracts

At September 30, 2013, the Corporation had entered into the following $USD forward sales arrangements to limit exposure to the effects of strength in the Canadian dollar on natural gas prices.

Type of Contract	Perpetual Sold/Bought	Notional $USD/month	Exchange rate ($CAD/$USD)	Term
Financial (1)	sold	$1,000,000	$1.0700	October 2013 – December 2013
Financial (2)	sold	$1,000,000	$1.0400	October 2013 – December 2013
Financial (2)	sold	$1,000,000	$1.0450	October 2013 – December 2013
Financial (2)	sold	$2,000,000	$1.0500	October 2013 – December 2013

(1) The Corporation receives $1,000 each day during the month that the daily exchange rate is between $0.9750 and $1.0700. If the average monthly exchange rate is greater than $1.0700 the Corporation pays $USD1,000,000 multiplied by the difference between the average monthly exchange rate and $1.0700. No settlement occurs between the Corporation and the counterparty if the average monthly exchange rate settles below $0.9750.

(2) At December 31, 2013, the counterparty has the right to extend the arrangement for the following 12 months at the same exchange rate.

12. FINANCIAL INSTRUMENTS

The following table reconciles the Corporation's derivative assets and liabilities:

	Current	Non Current	Total
December 31, 2011	5,763	(3,173)	2,590
Unrealized gain on gas storage obligation derivative	-	3,636	3,636
Unrealized gain (loss) on financial oil and natural gas contracts	(6,298)	2,463	(3,835)
Unrealized loss on power contracts	(616)	(15)	(631)
Unrealized loss on forward foreign exchange contracts	(204)	-	(204)
Fair value of WGS LP Call Option	3,581	-	3,581
Gas storage derivative disposed	-	(11,313)	(11,313)
Power contracts disposed	25	-	25
December 31, 2012	2,251	(8,402)	(6,151)
Unrealized gain (loss) on financial oil and natural gas contracts	(2,829)	4,756	1,927
Unrealized gain on forward foreign exchange contracts	110	-	110
Unrealized gain on physical oil and natural gas contracts	750	-	750
Change in fair value of WGS LP Call Option	(3,580)	-	(3,580)
September 30, 2013	**(3,298)**	**(3,646)**	**(6,944)**

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	**2013**	2012
Realized gain on oil and natural gas contracts	**2,000**	7,477	**3,461**	22,718
Realized gain on forward foreign exchange contracts	**170**	468	**519**	1,075
Unrealized gain (loss) on oil and natural gas contracts	**(4,281)**	(20,285)	**1,927**	(1,953)
Unrealized gain (loss) on physical oil and natural gas contracts	**2,024**	(1,270)	**750**	(419)
Unrealized loss on power contracts	**-**	-	**-**	(631)
Unrealized gain on forward foreign exchange contracts	**403**	506	**110**	356
Option premiums received	**-**	-	**953**	-
	316	(13,104)	**7,720**	21,146

Fair value of financial assets and liabilities

The fair value of accounts receivable, accounts payable and accrued liabilities approximate their carrying amounts due to their short terms to maturity. Bank indebtedness bears interest at a floating market rate and accordingly the fair market value approximates the carrying amount. The fair value of the Company's financial instruments, excluding working capital, is attributable to the following fair value hierarchy levels.

				Fair value	
As at September 30, 2013	**Gross**	**Netting (1)**	**Carrying Amount**	**Level 1**	**Level 2**
Financial assets					
Fair value through profit and loss					
Marketable securities	1,838	-	1,838	1,838	-
Derivatives – current	4,420	(2,333)	2,087	-	2,087
Financial liabilities					
Financial liabilities at amortized cost					
Senior notes	147,583	-	147,583	-	141,750
Convertible debentures	153,718	-	153,718	151,352	-
Fair value through profit and loss					
Derivatives – current	7,718	(2,333)	5,385	-	5,385
Derivatives – non current	3,646	-	3,646	-	3,646

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

				Fair value	
As at December 31, 2012	Gross	Netting (1)	Carrying Amount	Level 1	Level 2
Financial assets					
Fair value through profit and loss					
Marketable securities	1,963	-	1,963	1,963	-
Derivatives	9,144	(5,441)	3,703	-	3,703
Financial liabilities					
Financial liabilities at amortized cost					
Senior notes	147,177	-	147,177	-	144,000
Convertible debentures	151,673	-	151,673	151,123	-
Fair value through profit and loss					
Derivatives – current	6,893	(5,441)	1,452	-	1,452
Derivatives – non current	8,402	-	8,402	-	8,402

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

Natural gas sensitivity analysis

As at September 30, 2013, if future natural gas prices changed by $0.25 per GJ for AECO contracts with all other variables held constant, the fair value of commodity price derivatives and after tax net income for the period would have changed by $1.8 million. Fair value sensitivity was based on published forward AECO prices.

13. PER SHARE INFORMATION

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	**2013**	2012
($ thousands, except per share amounts)				
Net income (loss) – basic	**(7,267)**	(6,158)	**19,738**	6,701
Effect of dilutive securities	**-**	-	**-**	-
Net income (loss) – diluted	**(7,267)**	(6,158)	**19,738**	6,701
Weighted average common shares outstanding – basic	**148,382**	147,123	**148,028**	147,052
Effect of dilutive securities	**-**	-	**2,075**	1,696
Weighted average common shares outstanding – diluted	**148,382**	147,123	**150,103**	148,748
Income (loss) per share				
Basic and diluted	**$ (0.05)**	$ (0.04)	**$ 0.13**	$ 0.05

DIRECTORS

Clayton H. Riddell
Executive Chairman

Susan L. Riddell Rose
President, Chief Executive Officer and Director (4)

Karen A. Genoway
Independent Director (2) (3) (5)

Randall E. (Randy) Johnson
Independent Director (1) (3) (5)

Robert A. Maitland
Independent Director (1) (3) (5)

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

Donald J. Nelson
Independent Director (2) (4)

Howard R. Ward
Independent Director (3) (4) (5)

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

OFFICERS

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

Cameron R. Sebastian
Vice President, Finance and Chief Financial Officer

Vicki L. Benoit
Vice President, Production Operations

Jeffrey R. Green
Vice President, Corporate and Engineering Services

Gary C. Jackson
Vice President, Land and Acquisitions

Linda L. McKean
Vice President, Exploitation

Marcello M. Rapini
Vice President, Marketing

AUDITORS

KPMG LLP

BANKERS

Bank of Montreal

Canadian Imperial Bank of Commerce

The Bank of Nova Scotia

The Toronto-Dominion Bank

National Bank of Canada

ATB Financial

RESERVE EVALUATION CONSULTANTS

McDaniel & Associates Consultants Ltd.

REGISTRAR AND TRANSFER AGENT

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