A SPECTRUM OF OPPORTUNITY

Q1 | 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 is focused on five key strategic priorities in 2013:

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

Significant progress was made with respect to these priorities during the first quarter of 2013, as highlighted below.

Financial and operating highlights

- Perpetual executed a $39.5 million capital program in the first quarter of 2013 primarily directed to the development of oil and liquids-rich gas assets.
- Total actual and deemed production of 22,403 boe/d was virtually flat as compared to 22,433 boe/d recorded in the fourth quarter of 2012, as production declines for gas and liquids were offset by the start-up of production from new wells drilled in the fourth quarter of 2012. Total actual and deemed production decreased 17 percent from 27,045 boe/d in the first quarter of 2012, due primarily to non-core asset dispositions with production of 2,944 boe/d combined with natural declines, partially offset by increased production in the Mannville and Edson areas.
- Perpetual's gas price, before derivatives, increased 27 percent to $3.18 per Mcf from $2.50 per Mcf in the first quarter of 2012, due to improved AECO prices. Natural gas prices also improved relative to the fourth quarter of 2012, increasing six percent from $2.99 per Mcf. Perpetual's realized natural gas price, including derivatives, increased five percent from the first quarter of 2012 to $3.28 per Mcf.
- Perpetual's average oil and NGL price, before derivatives, was $54.74 per bbl, down 21 percent from $69.72 per bbl for the same period in 2012 and 12 percent from $62.02 per bbl in the fourth quarter of 2012, due to a wider West Texas Intermediate ("WTI") to Western Canadian Select ("WCS") differential and lower WTI prices in the 2013 quarter. The average realized oil and NGL price, including derivatives, decreased to $56.82 per bbl, down 15 percent from the first quarter of 2012 and 20 percent compared to the fourth quarter of 2012.
- Funds flow was $9.5 million ($0.06 per common share) for the first quarter of 2013.
- Net earnings of $32.3 million or $0.22 per basic common share were recorded for the first quarter of 2013, an improvement primarily related to a $51.8 million gain on the disposition of the Elmworth property in the West Central district.

Maximize value of Mannville heavy oil

- In the Southern district 27 (25.7 net) heavy oil wells were drilled in the Mannville area during the first quarter. Production commenced from 26 (24.7 net) of the new wells in late March and April with one (1.0 net) well waiting on facilities.
- Heavy oil production increased 15 percent relative to the first quarter of 2012 to 2,786 bbl/d as a result of the preferential concentration of capital allocated to heavy oil projects during 2012. This increase was despite the sale of 167 bbl/d of heavy oil production related to the strategic partnering in one Mannville heavy oil pool to advance enhanced oil recovery plans. Current heavy oil production is approximately 3,775 bbl/d, reflecting the start-up of wells drilled during the winter capital program.

Position for growth of Edson liquids-rich gas

- West Central first quarter 2013 activity was focused on the completion and tie-in of the fourth quarter 2012 drilling program at West Edson. Perpetual and its partner continued to grow the production capability of the West Edson area with the expansion of the West Edson compressor station to 30 MMcf/d from 10 MMcf/d of gross capacity (50 percent net to Perpetual).

- In early March 2013, Perpetual entered into rich gas premium agreements with Aux Sable Canada and an interconnection agreement with Alliance Canada to allow access to a premium market in the mid-west United States.
- To fulfill these arrangements, Perpetual and its partner are further enhancing the West Edson compressor station with the installation of refrigeration and other related components to produce sales quality gas and constructing a sales pipeline to tie-in to the Alliance pipeline system. Start-up of the gas plant and sales pipeline is expected to commence in the third quarter of 2013.

Manage downside risk and reduce debt

- Perpetual closed the sale of its non-producing Elmworth Montney assets in the first quarter with net proceeds of $76.8 million. Proceeds from the Elmworth disposition were used to strengthen Perpetual's balance sheet.
- Net debt decreased by $135.4 million to $351.2 million at March 31, 2012, a decline of 28 percent from the quarter end one year ago and 11 percent from $396.6 million at December 31 2012, due to successful execution of the planned asset disposition program. Current net bank debt is approximately $45 million.
- In April 2013 Perpetual's bank syndicate completed its borrowing base review establishing total availability under the credit facility at $125 million, down from $127.5 million. A further revision to $110 million is scheduled to occur on July 31, 2013. Both reductions reflect dispositions and lower natural gas price forecasts used in lender evaluations, offset by increased lending values attributable to higher oil and NGL reserves.
- To manage downside risk, following the end of the first quarter, Perpetual increased natural gas hedges to 44 percent of budgeted actual and deemed production for the remainder of 2013 as forward prices strengthened with lower volumes of natural gas in storage relative to 2012 and historical average levels. Perpetual has an average of 52,500 Gj/d of natural gas production hedged at an average price of $3.65 per Gj to bring certainty to a portion of funds flow for the remainder of 2013 to support the planned capital program.
- To reduce exposure to fluctuations in the WTI index, Perpetual has oil sales arrangements for 2,250 bbl/d for the remainder of 2013, protecting an average floor price of $88.22 per bbl with an average ceiling price of $101.18 per 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 for 2,250 bbl/d at an average of $US 22.79 per bbl.

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

- Funding approval through the Government of Alberta's Innovative Energy Technology Program ("IETP") was received for Perpetual's Low-Pressure Electro-Thermally Assisted Drive ("LEAD") project to develop bitumen in the Bluesky reservoir in the Panny area of northeast Alberta. Total capital and operating costs for the pilot project are estimated at $18.2 million. Approved funding through the IETP allowance is 30 percent of actual eligible costs to a maximum of $5.5 million.
- On April 25, 2013, Perpetual exercised the Warwick Gas Storage call option to buy back an additional 20 percent interest in the Warwick Gas Storage Limited Partnership, increasing its total interest in the gas storage facility to 30 percent. This transaction is expected to close in late May.

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

- Optimization of facilities and gathering systems, field office consolidation and streamlining of metering and other operations resulted in lower operating expenses related to Perpetual's shallow gas assets. Operating costs related to shallow gas production decreased 17 percent ($2.3 million) relative to the first quarter of 2012 to $11.8 million.
- Total production-related operating costs decreased 10 percent to $18.2 million for the first quarter as compared to $20.1 million for the same period in 2012. The reduction was primarily due to lower labour and field gathering and processing costs partially offset by higher operating costs related to increased heavy oil production.

2013 Outlook

The Corporation's Board of Directors has approved a capital budget of $75 million for 2013, highly focused on its commodity diversification strategy. This capital spending plan allows flexibility to direct capital to either Mannville heavy oil or liquids-rich gas drilling, depending on commodity prices in the second half of the year.

Perpetual will continue its drilling and development program in the Mannville area with up to 13 (12.3 net) additional Mannville heavy oil wells planned in the second half of 2013. Depending on commodity prices and construction timelines for the West Edson plant and sales gas pipeline, Perpetual plans to drill two to six (1.0 to 3.5 net) additional wells in the deep basin prior to year end.

Perpetual will continue to pursue dispositions and proceeds from any potential divestitures will be utilized to strengthen the balance sheet and to enhance the Corporation's ability to pursue further investment opportunities.

Perpetual estimates that 2013 funds flow will average $55 to $70 million based on current forward commodity prices, with production averaging 3,900 to 4,200 bbl/d for oil and liquids and 85 to 90 MMcf/d for natural gas depending on the allocation of capital for the remainder of the year.

FINANCIAL AND OPERATING HIGHLIGHTS

	Three Months Ended March 31		
($Cdn thousands except volume and per share amounts)	2013	2012	% Change
Financial			
Revenue [1]	43,967	56,728	(22)
Funds flow [2]	9,534	14,501	(34)
Per share - basic [3]	0.06	0.10	(40)
Net earnings (loss)	32,332	(13,040)	348
Per share - basic [3]	0.22	(0.09)	344
Per share - diluted [3]	0.21	(0.09)	333
Total assets	745,658	940,390	(21)
Net bank debt outstanding [2]	41,261	98,707	(58)
Senior notes, at principal amount	150,000	150,000	-
Convertible debentures, at principal amount	159,972	234,897	(32)
Total net debt [2]	351,233	483,604	(27)
Shareholders' equity	69,048	65,563	5
Capital expenditures			
Exploration, development	39,456	31,011	27
Gas storage	-	51	-
Dispositions	(77,930)	(63,390)	22
Acquisitions	1,752	698	151
Other	51	139	(63)
Net capital expenditures	(36,671)	(31,491)	16
Common Shares outstanding (thousands)			
End of period	147,704	146,996	-
Weighted average - Basic	147,672	146,977	-
Weighted average - Diluted	171,667	146,977	17
Shares outstanding at May 13, 2013	147,973	-	-
Operating			
Daily average production			
Natural gas (MMcf/d) [5]	88.6	113.7	(22)
Oil and NGL (bbl/d) [5]	3,483	3,474	-
Total (boe/d) [5]	18,244	22,428	(19)
Gas over bitumen deemed production (MMcf/d) [4]	25.0	27.7	(10)
Average daily (actual and deemed - boe/d) [4,5]	22,403	27,045	(17)
Per common share (boe/d/share) [3]	0.15	0.18	(17)
Average prices			
Natural gas, before derivatives ($/Mcf)	3.18	2.50	27
Natural gas, including derivatives ($/Mcf)	3.28	3.13	5
Oil and NGL, before derivatives ($/bbl)	54.74	69.70	(21)
Oil and NGL, including derivatives ($/bbl)	56.82	66.60	(15)
Barrel of oil equivalent, including derivatives ($/boe)	26.80	26.22	2
Land (thousands of net acres)			
Undeveloped land holdings	1,577	1,812	(13)
Drilling (wells drilled gross/net)			
Gas	-/-	4/3.5	-/-
Oil	27/25.7	16/15.3	69/68
Total	27/25.7	20/18.8	35/37
Success rate (%)	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) 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.

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

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 months ended March 31, 2013 as well as information and estimates concerning the Corporation's future outlook based on currently available information. This discussion should be read in conjunction with the Corporation's condensed interim consolidated financial statements and accompanying notes for the three months ended March 31, 2013 and 2012 as well as the audited consolidated financial statements and accompanying notes and MD&A of the Corporation for the years ended December 31, 2012 and 2011. The Corporation's audited 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 regarding forecasts, assumptions and other forward-looking information contained in the "Forward Looking Information" section of this MD&A. The date of this MD&A is May 13, 2013.

Mcf equivalent ("Mcfe") and barrel of oil equivalent ("boe") may be misleading, particularly if used in isolation. In accordance with National Instrument 51-101 ("NI 51-101"), a conversion ratio for 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 necessarily represent a value equivalency at the wellhead. For natural gas, gigajoules ("GJ") are converted to Mcf at a conversion ratio of 1.0546 GJ: 1 Mcf.

CORPORATE

Perpetual is an oil and natural gas exploration and production company headquartered in Calgary, Alberta. Building from its legacy shallow gas position in eastern Alberta, the Corporation has successfully transitioned its asset base to build a diversified, resource-style platform for growth. Perpetual currently has natural gas liquids-rich ("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 to complement its shallow gas production and resource base to support Perpetual's growth strategy.

2013 STRATEGIC PRIORITIES

The Corporation is focused on five key strategic priorities for 2013:

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

Operational and financial highlights during the first quarter of 2013 supporting Perpetual's 2013 strategic objectives are as follows:

- 27 (25.7 net) heavy oil wells were drilled with 100 percent success in the Mannville area of which 18 (17.7 net) were on production by the end of the first quarter, eight (7.0 net) brought on production in April and one (1.0 net) is awaiting facilities.
- Expansion of the West Edson compressor station to 30 MMcf/d from 10 MMcf/d of gross capacity (50 percent net to Perpetual) was completed as planned.
- Proceeds from dispositions totaled $76.8 million driven by the closing of the sale of the Elmworth property for net proceeds of $77.5 million, reducing net debt by 11 percent from December 31, 2012.
- Funding approval by the Innovative Energy Technology Program ("IETP") was received for Perpetual's Low-Pressure Electro-Thermally Assisted Drive ("LEAD") project to develop bitumen in the Bluesky reservoir in the Panny area of northeast Alberta.
- Optimization of facilities and gathering systems and streamlining of metering and other operations resulted in a 17 percent ($2.3 million) decrease in operating expenses related to Perpetual's shallow gas assets as compared to the first quarter of 2012.

Further details on these operational and financial highlights are provided throughout this first quarter 2013 MD&A.

OPERATIONAL RESULTS

Capital expenditures

($ thousands)	Three months ended March 31 2013	2012
Exploration and development [1]	**39,456**	31,011
Gas storage	**-**	51
Acquisitions	**1,752**	698
Dispositions	**(77,930)**	(63,390)
Other	**51**	139
	(36,671)	(31,491)

(1) For the three months ended March 31, 2013 exploration and development expenditures include approximately $0.8 million in exploration costs which have been expensed directly on the Corporation's statement of income (loss) (2012-$0.4 million). Exploration costs including geological and geophysical expenditures and dry hole costs are considered by Perpetual to be more closely related to investing activities than operating activities, and therefore they are included with capital expenditures.

Exploration and development expenditures measured $39.5 million for the three months ended March 31, 2013 as compared to $31.0 million for the same period in 2012. Driven by Perpetual's commodity diversification strategy, exploration and development expenditures were primarily directed towards development of oil and liquids in the West Central and Southern districts to continue to increase oil and natural gas liquids production.

	Three months ended March 31			
		2013		2012
Wells drilled	**Gross**	**Net**	Gross	Net
Natural gas	**-**	**-**	4.0	3.5
Oil	**27.0**	**25.7**	16.0	15.3
Total	**27.0**	**25.7**	20.0	18.8
Success rate (%)	**100**	**100**	100	100

Mannville heavy oil

Through the first quarter of 2013, 27 (25.7 net) heavy oil wells were drilled in the Mannville area of which 18 (17.7 net) were on production by the end of the quarter. Of the remaining nine wells, eight (7.0 net) were put on production in April with one (1.0 net) waiting on facilities. Results from the first quarter drilling program are still preliminary with heavy oil wells being optimized. Overall average results are in line with expected type curves and budget volumes.

Edson Wilrich liquids-rich gas

First quarter 2013 activity was focused on finishing the completion and tie-in of the fourth quarter 2012 drilling program as Perpetual and its partner continue to expand the production capability of the West Edson area. Expansion of the West Edson compressor station to 30 MMcf/d from 10 MMcf/d of gross capacity (50 percent net to Perpetual) was executed as planned. The expanded plant is currently producing at capacity with the three (1.5 net) new wells flowing at restricted rates. Perpetual also completed and tied in one (1.0 net) well to extend the Wilrich play to the south and west of Perpetual's original Edson acreage. This well is flowing at rates slightly above the area type curve.

In early March 2013, Perpetual entered into rich gas premium agreements with Aux Sable Canada and an interconnection agreement with Alliance Canada to allow access to a premium market in the mid-west United States. Further to these arrangements, Perpetual and its partner will enhance the West Edson compressor station with the installation of refrigeration and other related components to produce sales quality gas. In addition, a sales pipeline will be constructed in the second quarter of 2013 to tie-in to the Alliance pipeline system. Start-up of the gas plant and sales pipeline is expected to commence in the third quarter of 2013.

Dispositions

Proceeds from dispositions totaled $77.9 million compared to $63.4 million in the first quarter of 2012. The dispositions were primarily non-producing and non-funds flow generating properties in Elmworth which generated net proceeds of $76.8 million. Asset dispositions for 2012 included non-core properties in the West Central and northern areas of the Eastern district which were producing approximately 13.2 MMcf/d of natural gas and 744 bbl/d of oil and NGL at the dates of disposition.

Production

Production by core area and commodity	Three months ended March 31 2013	2012
Natural gas (MMcf/d)		
Eastern district		
North	**39.3**	54.1
South [(1)]	**27.2**	33.5
	66.5	87.6
West Central district [(2)]	**22.1**	26.1
Total natural gas	**88.6**	113.7
Oil and NGL (bbl/d)		
Eastern district		
North	**3**	12
South [(1)]	**2,761**	2,227
	2,764	2,239
West Central district [(2)]	**719**	1,235
Total oil and NGL	**3,483**	3,474
Total (boe/d)		
Eastern district		
North	**6,549**	9,025
South [(1)]	**7,296**	7,819
	13,845	16,844
West Central district [(2)]	**4,399**	5,584
Total actual	**18,244**	22,428
Deemed natural gas production (MMcf/d)	**25.0**	27.7
Total actual and deemed production (boe/d)	**22,403**	27,045

(1) Includes Mannville heavy oil.

(2) Includes Edson Wilrich.

Total actual and deemed production for the three months ended March 31, 2013 was virtually flat quarter over quarter at 22,403 boe/d, relative to 22,433 boe/d in the fourth quarter of 2012, as production declines for natural gas and oil and NGL's were offset by the start up of production from new wells drilled in the fourth quarter of 2012. Total actual and deemed production decreased 17 percent from 27,045 boe/d in the first quarter of 2012 due primarily to non-core asset dispositions with production of 2,944 boe/d combined with natural declines, partially offset by increased production in the Mannville and Edson areas.

Natural gas production volumes decreased 22 percent to 88.6 MMcf/d from 113.7 MMcf/d in the first quarter of 2012, primarily due to a reduction of 13.2 MMcf/d related to the disposition of non-core assets and natural declines with the concentration of capital spending on heavy oil drilling in 2012.

Oil and NGL production volumes increased slightly to 3,483 bbl/d relative to the first quarter of 2012. Oil production increased 15 percent as a result of the preferential concentration of capital allocated to heavy oil exploration and development projects during 2012 and the first quarter of 2013. This increase was despite asset sales in 2012 with 170 bbl/d of light oil production in the West Central district and 169 bbl/d of heavy oil production related to the strategic partnering in one Mannville heavy oil pool to advance enhanced oil recovery plans. This was offset by a decrease of 42 percent in NGL production primarily due to strategic sales of non-core assets at Carrot Creek and Karr which contributed 405 bbl/d of NGL production at the dates of their disposition.

Deemed production decreased 10 percent to 25.0 MMcf/d from 27.7 MMcf/d in the first quarter of 2012 due to the annual 10 percent per year reduction assessed on deemed production volumes.

Commodity prices

	Three months ended March 31	
	2013	2012
Reference prices		
AECO Monthly Index ($/Mcf)	**3.08**	2.52
AECO Daily Index ($/Mcf)	**3.11**	2.17
Alberta Gas Reference Price ($/Mcf) (1)	**2.87**	2.27
West Texas Intermediate ("WTI") light oil ($US/bbl)	**93.40**	100.51
Average Perpetual prices		
Natural gas		
Before derivatives ($/Mcf) (2)	**3.18**	2.50
Percent of AECO Monthly Index (%)	**103**	100
Including derivatives ("realized" gas price) ($/Mcf)	**3.28**	3.13
Percent of AECO Monthly Index (%)	**107**	125
Oil and NGL		
Before derivatives ($/bbl)	**54.74**	69.70
Including derivatives ("realized" oil and NGL price) ($/bbl)	**56.82**	66.60
Total		
Average realized price ($/boe)	**26.80**	26.21

(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 increased 22 percent to $3.08 per Mcf from $2.52 per Mcf for last year's first quarter. Much colder than normal weather in the second half of the winter helped to reduce the surplus of natural gas in U.S. storage facilities by over 800 Bcf by March 31, 2013 versus March 31, 2012, resulting in price appreciation. Perpetual's natural gas price before derivatives increased 27 percent to $3.18 per Mcf from $2.50 per Mcf in the first quarter of 2012. Perpetual's gas price before derivatives was three percent higher than the AECO Monthly Index price as the Corporation marketed the majority of its production at the higher AECO Daily Index.

Perpetual's average realized first quarter gas price, including derivatives, increased to $3.28 per Mcf from $3.13 per Mcf in 2012 due to gas price management from forward sales contracts entered into during the fourth quarter of 2012 and increased AECO prices. The 2012 price was enhanced by significant realized gains on natural gas derivatives with close to 75 percent of Perpetual's production hedged during that period. The Company also realized gains on foreign exchange derivatives.

Perpetual's oil and NGL price, before derivatives, decreased 21 percent from 2012 due to a wider WTI to Western Canadian Select ("WCS") differential price and lower WTI prices in the 2013 period. Perpetual's realized oil and NGL price decreased to $56.82 per bbl as a result of wider WTI to WCS differentials, lower NGL prices and losses of $0.3 million on financial WTI contracts which were partially offset by $0.9 million in call option premiums received.

Perpetual's total average realized commodity price of $26.80 per boe for the quarter increased two percent from the same period in 2012 as a result of higher natural gas prices and lower oil and NGL prices and relative changes in Perpetual's production mix by commodity.

The Corporation entered into an agreement to deliver 1,000 bbl/d of heavy oil directly to a third party terminal for shipment by railcar, starting on October 1, 2012. Perpetual estimates this sales contract will add approximately $4.00 per bbl to the Corporation's heavy oil price on netback for the related volumes.

Risk management

Perpetual's risk management strategy is focused on using derivatives to mitigate the effect of commodity price volatility on funds flow, to lock in economics on capital programs and acquisitions, and to take advantage of perceived anomalies in commodity markets. The Corporation uses both financial arrangements and physical forward sales to economically hedge up to a maximum of 60 percent of the trailing quarter's production, including gas over bitumen deemed volumes as limited by the Corporation's revolving credit facility. Further, Perpetual's internal hedging and risk management policy limits oil or condensate-based hedge volumes for a given term to 80 percent of the average forecast future oil and condensate production volume after royalties, and gas-based hedge volumes for a given term to 80 percent of the average forecast future natural gas production volume after royalties plus 40 percent of the forecast future gas over bitumen deemed production.

Perpetual will also enter into foreign exchange swaps and physical or financial swaps related to the differential between natural gas prices at the AECO and NYMEX trading hubs in order to mitigate the effects of fluctuations in foreign exchange rates and basis differentials on the Corporation's realized commodity prices. The term "derivatives" includes all financial and physical risk management contracts. Although Perpetual considers the majority of these risk management contracts to be effective economic hedges against potential gas price volatility, the Corporation does not follow hedge accounting for its derivatives.

Perpetual's risk management activities are conducted by an internal Risk Management Committee under guidelines approved by the Corporation's Board of Directors. Perpetual's risk management strategy, though designed primarily to protect funds flow, is opportunistic in nature. Depending on management's perceived position in commodity price cycles, the Corporation may elect to reduce or increase its risk management position within the approved guidelines. The Corporation mitigates credit risk by entering into risk management contracts with financially sound, credit-worthy counterparties.

Following the end of the first quarter, Perpetual has increased the volume of forward natural gas price management contracts to manage downside risk for the remainder of 2013 as the market has responded positively to lower natural gas storage levels relative to 2012 and historical average levels. Financial forward sales contracts as of March 31, 2013 are disclosed in note 10 to the Corporation's condensed interim consolidated financial statements as at and for the three months ended March 31, 2013. Financial forward sales arrangements (net of related financial fixed-price natural gas purchase contracts) at the AECO trading hub as at May 13, 2013 are as follows:

Type of contract	Term (1)	Volumes at AECO (GJ/d)	Price ($/GJ) (2)	Futures market ($/GJ) (3)	% of 2013 gas production (4)
Financial – AECO	June – December 2013	52,500	3.65	3.38	44

(1) Excludes settled prompt month contracts.

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

(3) Futures market prices are based on forward AECO prices as of May 13, 2013.

(4) Calculated using forecasted 2013 gas production of 120,000 GJ/d including gas over bitumen deemed production

Perpetual also has in place the following costless collar oil sales arrangements, to reduce exposure to fluctuations in the WTI index:

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)	% of 2013 oil production (4)
Collar	May – December 2013	500	95.00	108.75	94.70	12
Collar	May – December 2013	500	80.00	89.65	94.70	12
Collar	May – December 2013	250	90.00	97.00	94.70	6
Collar (5)	May – December 2013	500	82.00	90.25	94.70	12
Collar (6)	May – December 2013	500	95.00	118.15	94.70	12
Period total		2,250	88.22	101.18	94.70	54
Collar	January – December 2014	500	85.00	91.10	91.60	12
Collar	January – December 2014	500	85.00	91.20	91.60	12
Period total		1,000	85.00	91.15	91.60	24

(1) Excludes settled contracts.

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

(3) Futures market prices are based on forward WTI oil prices as of May 13, 2013.

(4) Calculated using forecasted 2013 oil and NGL production of 4,100 bbl/d.

(5) In this collar arrangement, if the WTI index settles at or above $US82.00 per bbl in any month Perpetual will receive $US90.25 per bbl, and if the index settles below $US82.00 per bbl Perpetual will receive $US82.00 per 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 $US118.15 per bbl in any month during the contract period Perpetual will receive a price of $US100.00 per bbl.

The Corporation has also entered into financial contracts to fix the basis differential between the WTI and WCS trading hubs as follows. The price at which this contract settles is equal to the WTI index less a fixed basis amount.

Type of contract	Term (1)	Volumes (bbl/d)	WTI-WCS differential ($US/bbl) (2)	Futures market ($US/bbl) (3)	% of 2013 oil production (4)
Financial	June – December 2013	2,250	(22.79)	(25.00)	55
Financial	January – December 2014	500	(23.00)	(22.50)	12

(1) Excludes settled contracts.

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

(3) Futures market prices are based on forward WTI-WCS differential prices as of May 13, 2013.

(4) Calculated using forecasted 2013 oil and NGL production of 4,100 bbl/d.

The Corporation has sold oil call options exercisable and expiring as follows.

Type of contract	Term	Expiry date	Volumes at WTI (bbl/d)	Call price ($US/bbl WTI)	Futures market ($US/bbl WTI) (1)
Call	January – December 2014	Dec 31, 2013	1,000	90.00	91.60
Call	January – December 2014	Monthly 2014	2,000	105.00	91.60
Call	January – December 2015	Monthly 2015	1,500	100.00	88.40

(1) Futures market prices are based on forward WTI oil prices as of May 13, 2013.

Perpetual has entered into the following U.S. dollar forward sales arrangements to limit the Corporation's exposure to the effects of strength in the Canadian dollar on natural gas prices.

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

FINANCIAL RESULTS

Funds flow

	Three months ended March 31			
		2013		2012
	$ millions	**($/boe) [1]**	$ millions	($/boe) [1]
Revenue [2] [3]	**44.0**	**26.80**	53.5	26.21
Royalties	**(2.5)**	**(1.52)**	(3.6)	(1.76)
Operating expense	**(18.2)**	**(11.08)**	(20.1)	(9.85)
Transportation costs	**(2.3)**	**(1.40)**	(2.1)	(1.03)
Operating netback from production [3]	**21.0**	**12.80**	27.7	13.57
Gas storage operating netback [3] [4]	**-**	**-**	1.4	0.69
Gas over bitumen royalty adjustments	**1.5**	**0.91**	2.1	1.03
Exploration and evaluation [5]	**(0.6)**	**(0.37)**	(0.7)	(0.34)
Cash G&A [5]	**(5.2)**	**(3.17)**	(6.9)	(3.38)
Interest on convertible debentures [5]	**(2.9)**	**(1.77)**	(4.0)	(1.96)
Interest on senior notes [5]	**(3.2)**	**(1.95)**	(3.3)	(1.62)
Interest on debt	**(1.1)**	**(0.67)**	(1.8)	(0.88)
Funds flow [3] [5]	**9.5**	**5.78**	14.5	7.11

(1) $/boe amounts are based on first quarter 2013 production of 1,642 Mboe (first quarter 2012 - 2,041 Mboe).

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

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

(4) First quarter 2012 gas storage operating netback include 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.

(5) Excludes non-cash items.

Operating netback

Operating netback (1) reconciliation	($ millions)
Natural gas price increase before derivatives	6.9
Natural gas production decrease	(7.5)
Oil price decrease before derivatives	(3.8)
Oil production increase	1.6
NGL price decrease	(0.5)
NGL production decrease	(2.2)
Decrease in gains on derivatives	(4.0)
Royalty expense decrease	1.1
Operating cost decrease (2)	1.9
Transportation cost increase	(0.2)
Decrease in operating netback (1)	(6.7)

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

(2) Excludes $1.9 million of operating expenses related to the gas storage business as revenue and expenses were no longer accounted for on a consolidated basis after April 25, 2012.

Perpetual's operating netback decreased by $6.7 million to $21.0 million from $27.7 million in the first quarter of 2012 driven primarily by lower oil and NGL prices, lower realized hedging gains on derivatives and reduced gas and NGL production due to dispositions. This was partially offset by lower operating costs and a 15 percent increase in oil production.

Funds flow

Funds flow declined by $5.0 million to $9.5 million ($0.06 per common share) for the first quarter of 2013 as compared to $14.5 million ($0.10 per common share) for the same period in 2012 due to the decrease in the operating netback which was partially offset by lower cash general and administrative ("G&A") and interest expense due to the repayment of debentures in 2012 and lower outstanding debt balances during 2013 compared to 2012.

Revenue

	Three months ended March 31	
($ thousands)	**2013**	2012
Natural gas revenue before derivatives (1)	**25,318**	25,923
Oil and NGL revenue before derivatives	**17,159**	22,040
Realized gains on derivatives	**537**	5,531
Call option premiums received	**953**	-
Gas storage revenue	**-**	3,234
Total revenue (2)	**43,967**	56,728

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

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

Natural gas revenue before derivatives of $25.3 million decreased two percent from $25.9 million for the same period in 2012 due to a reduction in natural gas production related to 2012 dispositions, offset by increased natural gas prices. Oil and NGL revenues decreased by $4.9 million as a result of a 34 percent decrease in NGL production due to 2012 dispositions and lower oil prices caused by a widening WTI-WCS differential price and a lower WTI price in 2013. This price related reduction was partially offset by a 15 percent increase in oil production. Gas storage revenue decreased to nil for the first quarter of 2013 from $3.2 million in the first quarter of 2012 as 90 percent of the gas storage business was sold effective April 25, 2012 at which time Warwick Gas Storage LP ("WGS LP") revenues were no longer accounted for on a consolidated basis.

Realized gains on derivatives totaled $0.5 million compared to $5.5 million for the same period in 2012. The decrease was primarily due to strengthening natural gas prices during the first quarter of 2013 compared to the same period in 2012 and Perpetual's significantly reduced hedge position during the first quarter of 2013. Perpetual had anticipated a low gas price environment in 2012. To manage the downside risk, Perpetual entered into hedging contacts which represented close to 75 percent of actual and deemed natural gas production for 2012. In 2013, that temporary increase to the hedging limits from the internal hedging and risk management policy has been reduced back to 60 percent of actual and deemed natural gas production. Hedged natural gas volumes were significantly reduced compared to the first quarter of 2012 as management expected actual natural gas prices to exceed the forward market during the first quarter of 2013.

The Corporation also recorded unrealized losses on derivatives of $1.9 million related to the change in mark-to-market value of derivatives contracts, compared to unrealized gains of $18.2 million for the same period in 2012. The unrealized gains in 2012 resulted primarily from natural gas price risk management contracts put in place in the fourth quarter of 2011 and decreasing forward natural gas prices, which increased the mark-to-market value of the forward natural gas contracts. The decrease in the first quarter of 2013 was due to fewer natural gas price risk management contracts in place and increased forward natural gas prices.

Royalties

Perpetual pays Crown, freehold and gross overriding royalties which are dependent upon production volumes, commodity prices, location and age of producing wells and type of production. Gas Crown royalties are reduced by Gas Cost Allowance (“GCA”) deductions, which are based on processing fees and allowable capital costs incurred at a property and are in accordance with Crown royalty regulations. Crown royalty rates tend to decline with decreases in the Alberta Gas Reference Price, and rise as the reference price increases. Oil royalties are taken in kind directly from the wellhead by the Alberta Crown, and an amount is calculated based on the oil price received by the Corporation and are included in royalty expense.

The average royalty rate on oil, NGL and natural gas revenues before derivatives was 5.8 percent for the first quarter of 2013 compared to 7.5 percent for the same period in 2012. The decrease was primarily due to deep gas royalty holiday credits assessed during the first quarter of 2013 in relation to natural gas wells drilled in the West Central Edson area during 2012.

Perpetual’s royalty rate has declined over the past two years as natural gas prices decreased to lower levels on the price-adjusted sliding scale used for provincial royalty calculations. Further, the Alberta government has implemented a five percent Crown royalty rate on all new wells drilled in Alberta for the first 12 months of production, up to a maximum of 500,000 Mcf of natural gas or 50,000 bbl of oil. As heavy oil wells drilled in Mannville in 2011 and 2012 produce beyond the first year the Corporation expects its average royalty rate to gradually increase in future periods.

Operating expense

	Three months ended March 31			
	2013		2012	
	$ thousands	**($/boe)**	$ thousands	($/boe)
Production-related operating expense	**18,153**	**11.08**	20,064	9.85
Gas storage business operating expense	**-**	**-**	1,862	0.88
Total operating expense	**18,153**	**11.08**	21,926	10.73

Operating expense includes all costs associated with the production of oil and natural gas from the wellhead to the point at which the product enters a sales pipeline for transport to market. Field gathering and processing costs are also included in operating expense. Revenue received from the processing of third party production at Perpetual’s facilities is netted against operating expense.

Production-related operating expense decreased 10 percent to $18.2 million as compared to $20.1 million for the first quarter of 2012 primarily due to lower labour costs resulting from the amalgamation of field offices during 2012 and lower field gathering and processing costs from decreased gas production. Operating costs related to shallow gas production decreased 17 percent ($2.3 million) relative to the first quarter of 2012 to $11.8 million. The decrease was partially offset by higher operating costs related to increased heavy oil production. Combined with reduced production levels, this was the primary contributor to the increase in operating expense on a unit of production basis to $11.08 per boe in the first quarter of 2013 from $9.85 per boe for the same period in 2012. Gas storage business operating expense decreased to nil in the first quarter of 2013 from $1.9 million for the three months ended March 31, 2012 as the disposition of 90 percent of WGS LP effective April 25, 2012 resulted in WGS LP expenses no longer being accounted for on a consolidated basis.

Transportation costs

Total transportation costs increased to $2.4 million in the first quarter of 2013 from $2.1 million for the same period in 2012 primarily due to increased transportation costs on oil production. Transportation costs on oil volumes may be included in the net price received for the product in situations where the custody of the product is transferred to the buyer prior to shipment and as such are included in revenues.

During the first quarter of 2013, Perpetual increased onsite processing of oil to meet sales point specifications prior to shipment resulting in custody of the product being transferred to the buyer after shipment, causing an increase to transportation costs instead of being included in revenues. In addition, natural gas transportation costs decreased due to lower production levels, which were partially offset by an increase in rates. Costs to transport gas from the plant gate to the commercial market sales point are not reflected as an operating cost but rather are separately recorded as transportation costs for the product. Alberta’s gas transportation system operates on a postage stamp basis.

Gas over bitumen royalty adjustments

The Corporation’s net deemed production volume for purposes of the gas over bitumen royalty adjustment was 25.0 MMcf/d for the first quarter of 2013. Deemed production represents all of Perpetual’s natural gas production shut-in or denied production pursuant to a decision report, corresponding order or general bulletin of the Alberta Energy Utilities Board (“AEUB”) or Energy Resources Conservation Board, or through correspondence in relation to an AEUB ID 99-1 application. In accordance with IL 2004-36, the deemed production volume related to wells shut-in is reduced by 10 percent per year on the anniversary date of the shut-in order. Deemed production for the first quarter 2013 decreased by 2.7 MMcf/d from the 27.7 MMcf/d recorded for the first quarter of 2012 as a result of the annual 10 percent reduction.

A significant portion of gas over bitumen royalty adjustments received has been recorded on Perpetual’s statement of financial position as the gas over bitumen obligation rather than reported as income as the Corporation cannot determine if, when or to what extent the royalty adjustments may be repayable through incremental royalties, if and when gas production recommences. Royalty adjustments may be repayable to the Crown in the form of an overriding royalty on gas production from wells ordered shut-in which resume production within the gas over bitumen area. However, all royalty adjustments are recorded as a component of funds flow.

Perpetual has disposed of certain shut-in gas wells in the gas over bitumen area. As part of the disposition agreements, the Corporation continues to receive the gas over bitumen royalty adjustments related to the sold wells, although the ownership of the natural gas reserves is transferred to the buyer. As such, any overriding royalty payable to the Crown when gas production recommences from the affected wells is no longer Perpetual’s responsibility. As a result of these dispositions, the gas over bitumen royalty adjustments received by the Corporation for the affected wells are considered revenue since they will not be repaid to the Crown.

Gas over bitumen royalty adjustments are not paid to Perpetual in cash, but are a deduction from the Corporation’s monthly natural gas royalty invoices. In periods of low gas prices the Corporation’s net Crown royalty expenses have been too low to recover the full amount of the gas over bitumen royalty adjustments, and as such royalty adjustments for past periods will be recovered in future periods. All royalty adjustments, whether or not they have

been recovered, have been included in funds flow in the periods in which they appeared on the natural gas royalty invoices. Eventual realization of the royalty adjustments is highly likely as deemed production is reduced by 10 percent annually, whereas the Corporation is focused on growing natural gas production and reserves year over year through capital spending programs. As of March 31, 2013, the Corporation had accumulated $13.5 million (December 31, 2012 - $11.5 million) of gas over bitumen adjustments receivable of which $9.2 million (December 31, 2012 - $8.8 million) have been netted against the gas over bitumen royalty obligation on the statement of financial position.

A reconciliation of the gas over bitumen royalty obligation is provided below:

Gas over bitumen royalty obligation ($ thousands)	
Balance, December 31, 2012	44,553
Royalty obligation adjustments	432
Royalty obligation adjustments not yet received	(414)
Balance, March 31, 2013	**44,571**

Exploration and evaluation

	Three months ended March 31	
($ thousands)	**2013**	2012
Lease rentals	**643**	657
Seismic expenditures and dry hole costs	**774**	377
Lease expiries	**-**	1,454
Total exploration and evaluation	**1,417**	2,488

Exploration and evaluation ("E&E") costs include lease rentals on undeveloped acreage, seismic expenditures, exploratory dry hole costs and lease expiries. E&E costs decreased to $1.4 million from $2.5 million for the first quarter of 2012 due to lower lease expiries, partially offset by an increase in seismic purchases for the purpose of enhancing Perpetual's Mannville and Edson capital development plan.

G&A expenses

	Three months ended March 31			
	2013		2012	
	$ thousands	**$/boe**	$ thousands	$/boe
Cash G&A	**5,232**	**3.17**	6,868	3.38
Share-based compensation (1)	**644**	**0.39**	1,298	0.64
Total G&A	**5,876**	**3.56**	8,166	4.02

(1) Non-cash item

G&A expense includes costs incurred by Perpetual not directly associated with the production of oil and natural gas. The largest components of G&A expenses are office staff compensation costs and information technology costs. Field employee compensation costs are charged to operating expenses. Overhead recoveries resulting from the allocation of administrative costs to producing properties and capital projects are recorded as a reduction of G&A expenses, and are a function of capital expenditures during the period and operating expenditures related to the Corporation's productive well base. Reduced capital programs result in lower overhead recoveries, thereby increasing G&A.

G&A expenses totaled $5.9 million for the first quarter, 28 percent lower than the $8.2 million for the comparable period in 2012 primarily due to reduced staffing levels and lower consulting fees.

Share-based compensation decreased 50 percent for the three months ended March 31, 2013 compared to the same period in 2012, as a result of lower share option expense due to a reduction in the amount of share options granted. Fair values of share options are calculated using a trinomial lattice option pricing model.

Gain on dispositions

Perpetual recorded gains on dispositions of $51.1 million during the first quarter of 2013 compared to a loss on dispositions of $14.1 during the same period in 2012. Upon closing the sale of Perpetual's Elmworth property during the first quarter of 2013, Perpetual received net cash proceeds of $76.8 million resulting in a gain on disposition of $51.8 million. This property was identified as an asset held for sale in the December 31, 2012 consolidated financial statements. The Elmworth property consisted of three gross (1.5 net) non-producing horizontal Montney gas wells at Elmworth, one vertical well at Wapiti and undeveloped land. There was no production or funds flow from operations at the Elmworth property and therefore this disposition will have no negative effect on Perpetual's 2013 projected production or funds flow. Proceeds from this disposition were applied to reduce outstanding bank debt.

Depletion, depreciation and impairment

Depletion and depreciation ("D&D") expense decreased to $21.7 million ($13.21 per boe) in 2013 from $28.1 million ($13.75 per boe) in the first quarter of 2012 due primarily to lower production levels as a result of property dispositions and a decreased depletable cost base due to impairment write downs recorded at December 31, 2012.

At March 31, 2013, capital assets included $80.3 million (December 31, 2012 – $98.2 million) of E&E assets of which nil was included in assets held for sale (December 31, 2012 – $17.7 million). The capital assets were comprised of undeveloped land and oil sands expenditures not subject to depletion and $19.6 million (December 31, 2012 – $19.6 million) of costs related to shut-in gas over bitumen reserves not being depleted due to the non-producing status of the wells in the affected properties. The decrease in E&E assets during the period was the result of the Elmworth disposition which included undeveloped land.

Financing expenses

For the first quarter 2013, interest expense on the Corporation's Senior Notes issued on March 15, 2011 remained consistent with the same period in 2012 at $3.4 million, of which $0.2 million (2012 – $0.1 million) related to amortization of debt issue costs.

Interest on long term bank debt decreased to $1.1 million from $1.8 million in the first quarter of 2012 due to lower borrowings under the Corporation's credit facility as a result of debt reduction from proceeds on dispositions during 2012 and the first quarter of 2013.

Interest on convertible debentures decreased to $3.6 million for the first quarter of 2013 from $5.0 million for the same period in 2012, primarily due to the repayment of the $74.9 million in 6.50 percent convertible debentures on the maturity date of June 30, 2012.

Net income (loss)

The Corporation recorded net income of $32.3 million or $0.22 per basic common share ($0.21 per diluted common share) for the first quarter of 2013 as compared to a net loss of $13.0 million or $0.09 per basic and diluted common share for the three months ended March 31, 2012. The change was due to gains on dispositions and lower depletion costs which was partially offset by a decrease in funds flow.

SUMMARY OF QUARTERLY RESULTS

				Three months ended
($ thousands except where noted)	**Mar 31, 2013**	Dec 31, 2012	Sept 30, 2012	June 30, 2012
Oil and natural gas revenues (1)	**42,477**	44,468	40,028	40,444
Production				
Natural gas (MMcf/d)	**88.6**	88.3	93.7	105.1
Oil and NGL (boe/d)	**3,483**	3,536	3,336	3,446
Total (boe/d)	**18,244**	18,250	18,950	20,967
Funds flow (2)	**9,534**	11,158	10,760	12,668
Per common share - basic	**0.06**	0.08	0.07	0.09
Net income (loss)	**32,332**	(52,879)	(6,158)	25,899
Per common share - basic	**0.22**	(0.36)	(0.04)	0.18
- diluted	**0.21**	(0.36)	(0.04)	0.17
Realized commodity price ($/boe) (3)	**26.80**	31.08	27.48	26.10
Average AECO Monthly Index price ($/Mcf)	**3.08**	3.06	2.19	1.84

				Three months ended
($ thousands except where noted)	Mar 31, 2012	Dec 31, 2011 (4)	Sept 30, 2011	June 30, 2011
Oil and natural gas revenues (1)	51,197	59,859	58,400	67,097
Production				
Natural gas (MMcf/d)	113.7	126.8	123.5	139.5
Oil and NGL (boe/d)	3,474	2,481	1,995	1,795
Total (boe/d)	22,428	23,617	22,583	25,050
Funds flow (2)	14,501	11,586	19,318	17,852
Per common share - basic	0.10	0.08	0.13	0.12
Net loss	(13,040)	(42,998)	(24,343)	(5,626)
Per common share - basic & diluted	(0.09)	(0.29)	(0.17)	(0.04)
Realized commodity price ($/boe) (3)	26.21	27.48	26.76	27.66
Average AECO Monthly Index price ($/Mcf)	2.52	3.44	3.72	3.74

(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 natural gas liquids 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, as well as WTI-WCS differentials. 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. In addition, as of April 25, 2012, no WGS LP revenue was consolidated within oil and natural gas revenues due to the Corporations investment in WGS LP being accounted for as an equity-method investment. Perpetual uses derivatives to mitigate the effect of volatility in oil and natural gas prices on funds flows, and has a core asset base transformation and commodity diversification strategy to enhance the corporate production base with higher-priced oil and NGL volumes. Therefore funds flows will trend with Perpetual's production mix, realized commodity prices and changes in production levels. Funds flows were highest in the third quarter of 2011 and lowest in the first quarter of 2013 due to decreased production levels.

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 (losses) also fluctuated with changes in AECO gas 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. 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.

LIQUIDITY, CAPITALIZATION, FUTURE OPERATIONS AND FINANCIAL RESOURCES

Capitalization and financial resources

($ thousands except per common shares and percent amounts)	**March 31 2013**	December 31 2012
Long term bank debt	**64,042**	77,974
Senior Notes, measured at principal amount	**150,000**	150,000
Convertible debentures, measured at principal amount	**159,972**	159,972
Adjusted working capital deficiency (surplus) (1)	**(22,781)**	8,637
Net debt	**351,233**	396,583
Common shares outstanding at end of period (thousands)	**147,704**	147,455
Market price at end of period	**1.13**	1.15
Market value of common shares	**166,906**	169,573
Total capitalization (2)	**518,139**	566,156
Net debt as a percentage of total capitalization (%)	**67.8**	70.0
Funds flow (2)	**44,120**	49,087
Net debt to funds flow ratio (times) (2)	**8.0**	8.1

(1) Adjusted working capital deficiency (surplus) 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 deficiency does not include approximately $0.4 million in gas over bitumen royalty adjustments not yet received as of March 31, 2013.

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

Long-term debt drawn on the credit facility decreased $13.9 million or 18 percent from December 31, 2012 to $64.0 million following completion of the first quarter exploration and development program of $39.5 million and closing of the Elmworth property dispositions. Current net bank debt is approximately $45.0 million.

Perpetual had an adjusted working capital surplus of $22.8 million at March 31, 2013, as compared to a deficiency of $8.6 million at December 31, 2012, as $30.0 million of the proceeds from the disposition of Elmworth were retained in cash to facilitate the exercise of Perpetual's call option to repurchase up to a 30 percent additional interest in WGS LP ("WGS LP Call Option") prior to its expiry on April 25, 2013. 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. The revolving nature of the credit facility expires on October 31, 2013. Upon expiry of the revolving feature of the facility, should it not be extended, amounts outstanding as of the expiry date will have a term to maturity date of an additional 364 days. On April 26, 2013, the Corporation's lenders completed their semi-annual review of the borrowing base under the credit facility. The total availability under the credit facility was reduced to $125 million from $127.5 million consisting of a demand loan of $95 million, a working capital facility of $15 million, and a $15 million acquisition facility that matures on July 31, 2013. The $15 million acquisition facility has been made available to facilitate the exercise of the WGS LP Call Option as an alternative to using available cash. The reduction from the previous borrowing base of $127.5 million is due to dispositions and lower natural gas price forecasts used in lender evaluations, offset by increased lending values attributable to higher oil and NGL reserves. The next semi-annual redetermination of the Corporation's borrowing base will occur prior to October 31, 2013. At current interest rates and applicable margins, the effective interest rate on the Corporation's long term bank debt is approximately 5.4 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]	39.5
Dispositions, net of acquisitions	(76.2)
Funds flow [3]	(9.5)
Expenditures on decommissioning obligations	0.4
Gas over bitumen royalty adjustments not yet received	0.4
Net debt, March 31, 2013 [1]	**351.2**

(1) Excludes gas over bitumen royalty adjustments not yet received of $9.2 million at March 31, 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.

Senior notes

On March 15, 2011, Perpetual issued $150 million of Senior Notes. 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 bear interest at 8.75%, payable semi-annually, and mature on March 15, 2018. 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 May 13, 2013 was $143.3 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 March 31, 2013.

The Senior Notes indenture also contains restrictions on certain payments including dividends, retirement of subordinated debt and stock repurchases. Allowable payments are increased by 50 percent of cash flow from operating activities and reduced by restricted payments.

Convertible debentures

As at March 31, 2013, the Corporation had outstanding 7.25 percent convertible debentures issued in April 2006 and amended in 2009 (7.25% Debentures) and 7.0 percent convertible debentures issued in May 2010 (7.0% Debentures). All series of 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)	100.0	60.0
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]	95.5	56.9

(1) Fair values of debentures are calculated by multiplying the number of debentures outstanding at May 13, 2013 by the quoted market price per debenture at that date.

All series of debentures are redeemable by the Corporation at a premium to face value, pay interest semi-annually and are subordinated to substantially all other liabilities of Perpetual including the credit facility and the Senior Notes. The 7.0% Debentures are also subordinated to all other series of convertible debentures. None of the convertible debentures were converted into common shares during the three months ended March 31, 2013.

Equity

Perpetual's total capitalization was $518.1 million at March 31, 2013. Net debt to total capitalization decreased to 67.8 percent at March 31, 2013 as compared to 70.0 percent at December 31, 2012 due to proceeds on the disposition of Elmworth used to reduce net debt.

Weighted average common shares outstanding for the three months ended March 31, 2013 totaled 147.7 million (2012 – 147.0 million). On May 13, 2013 there were 147.7 million common shares outstanding.

2013 OUTLOOK AND SENSITIVITIES

The Corporation's Board of Directors has approved a capital budget of up to $75 million which will be highly focused on its commodity diversification strategy. The capital spending plan incorporates infrastructure spending at Edson and a two rig development drilling program for Mannville heavy oil which was executed in the first quarter, and allows flexibility to manage spending in the second half of the year by focusing on either Mannville heavy oil or liquids-rich gas at Edson depending on commodity prices

Eastern district – Mannville heavy oil

Perpetual will continue its drilling and development plan in the Mannville area with up to 13 (12.3 net) Mannville heavy oil wells planned in the second half of 2013. This includes a mix of horizontal and deviated vertical infill wells building on prior successes. The 2013 overall program will include six (4.0 net) infill wells in the Mannville I2I pool in preparation for the potential implementation of an enhanced recovery scheme in this Sparky pool in 2014.

West Central district – Edson Wilrich liquids-rich gas

In early March 2013, Perpetual entered into rich gas premium agreements with Aux Sable Canada and an interconnection agreement with Alliance Canada to allow access to a premium market in the mid-west United States. Further to these arrangements and the expansion of the West Edson compressor station completed during the first quarter of 2013, Perpetual and its partner will continue to enhance the West Edson compressor station with the installation of refrigeration and other related components to produce sales quality gas. In addition, a sales pipeline will be constructed beginning in the second quarter of 2013 to tie-in to the Alliance pipeline system. Start-up of the gas plant and sales pipeline is expected to commence in the third quarter of 2013. These actions are expected to alleviate uncertainty with respect to natural gas processing and NGL transportation and extraction capacity for development of the West Edson reserves, reduce operating costs, improve run times and provide competitive netbacks for NGL.

Depending on commodity prices and West Edson plant and sales gas pipeline construction timelines, Perpetual plans to drill two to six (1.0 to 3.5 net) wells in the deep basin during the second half of 2013, primarily targeting the Wilrich formation at West Edson.

Eastern district – Panny Bitumen

Perpetual's LEAD project has been approved for funding through the IETP. The project is designed to develop bitumen in the Bluesky reservoir in the Panny area of northeast Alberta that is too viscous for conventional cold production, but does not require as much heat as most current commercial thermal projects. The pilot will use three parallel horizontal wells with electrical cables to conduct heat throughout the targeted bitumen formation. Water and/or solvent will be injected concurrent with the electrical heating. This process requires less energy and less water than typical steam assisted gravity drainage ("SAGD") operations. The total pilot project is estimated to cost $18.2 million, including capital and operating costs. Approved funding through the IETP allowance is 30 percent of actual eligible costs, to a maximum of $5.5 million. Perpetual intends to initiate the pilot project with the drilling of a water source well in the second half of 2013, with the majority of the capital spending on the pilot currently planned for 2014 subject to available capital and other opportunities.

2013 Dispositions

Perpetual will continue to pursue dispositions and proceeds from any potential divestitures will be utilized to strengthen the balance sheet and to enhance the Corporation's ability to pursue further investment opportunities, depending upon the outlook for commodity prices at that time.

Warwick Gas Storage

On April 25, 2013, Perpetual exercised a portion of its WGS LP Call Option to buy back a 20 percent interest in WGS LP for a total interest in the gas storage facility upon closing of 30 percent. The exercise of a portion of the WGS LP Call Option was based on the impact of 2012 drilling and plans for delta pressuring that have increased the potential storage capacity of the facility to 22 bcf from 17 bcf of working gas capacity. Improving seasonal spreads are also expected to translate into increased future funds flows from the facility. The partial exercise of the WGS LP Call Option will cost $19.0 million and the remaining unexercised portion has expired.

Sensitivities

Perpetual estimates that 2013 funds flow will average $55 to $70 million based on current forward commodity price curves with oil and liquids production averaging 3,900 to 4,200 bbl/d and natural gas averaging 85 to 90 MMcf/d. Below is a table that shows sensitivities of Perpetual's 2013 forecasted funds flow to operational changes and changes in the business environment:

		Impact on funds flow	
Funds flow sensitivity analysis ($ thousands)	Change	Annual	Monthly
Business Environment			
Natural gas price at AECO	$0.25 per Mcf	7,984	665
Oil price at WTI	$5.00 per bbl	7,391	616
Interest rate on long term bank debt	1%	344	29
Operational			
Natural gas production	5 MMcf/d	6,661	555
Oil and NGL production	100 bbl/d	2,446	204
Operating expense	$0.50 per boe	3,401	283
Cash G&A expenses	$0.50 per boe	3,401	283

CORPORATE GOVERNANCE

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

INTERNAL CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

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 January 1, 2013 and ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

NON-GAAP MEASURES

Operating and funds flow netbacks

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. Operating and funds flow netbacks do not have any standardized meaning as prescribed by GAAP and therefore may not be comparable to the calculation of similar measures for other entities. Operating and funds flow netbacks should not be viewed as an alternative to cash flow from operations, net income (loss) per common share or other measures of financial performance calculated in accordance with GAAP.

Funds flow is reconciled to its closest GAAP measure, cash flow from operating activities, as follows.

Funds flow GAAP reconciliation	For the three months ended March 31	
($ thousands, except per common share amounts)	**2013**	2012
Cash flow from operating activities	**5,584**	16,900
Exploration and evaluation costs (1)	**774**	377
Expenditures on decommissioning obligations	**402**	893
Gas over bitumen royalty obligation adjustments not yet received	**414**	1,333
Changes in non-cash operating working capital	**2,360**	(5,002)
Funds flow	**9,534**	14,501
Funds flow per common share (2)	**0.06**	0.10

(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. Revenue, including realized gains (losses) on derivatives, does not have any standardized meaning as prescribed by GAAP and should not be reviewed as an alternative to revenue or other measures calculated in accordance with GAAP.

Net debt and net bank debt

Net bank debt is measured as long term bank debt including net working capital (deficiency) excluding 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. Net bank debt and net debt do not have any standardized meaning prescribed by GAAP and therefore these terms may not be comparable with the calculation of similar measures for other entities.

Total capitalization

Total capitalization is equal to net debt plus market value of issued equity and is used by management to analyze leverage. Total capitalization as presented does not have any standardized meaning prescribed by GAAP and therefore it may not be comparable with the calculation of similar measures for other entities. Total capitalization is not intended to represent the total funds from equity and debt received by the Corporation.

CRITICAL ACCOUNTING ESTIMATES

The MD&A is based on the Corporation's consolidated financial statements which have been prepared in Canadian dollars in accordance with GAAP. The application of GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Perpetual bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions.

For a list of specific estimates employed in the preparation of Perpetual's consolidated financial statements please refer to the Corporation's MD&A for the year ended December 31, 2012.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Perpetual's operations are affected by a number of underlying risks both internal and external to the Corporation. These risks are similar to those affecting others in the oil and gas producers sector. The Corporation's financial position, results of operations and cash available for dividend to Shareholders are directly impacted by these factors.

Depletion of reserves

Perpetual's future oil and natural gas reserves and production and therefore its funds flows are highly dependent on Perpetual's success in exploiting its reserve base and discovering, developing and acquiring additional reserves. Without reserves additions through acquisition or development activities, the Corporation's reserves and production will decline over time as reserves are exploited.

To the extent that external sources of capital including the issuance of additional common shares become limited or unavailable Perpetual's ability to make the necessary capital investments to maintain or expand its oil and natural gas reserves may be impaired.

Perpetual reinvests capital to minimize the effects of natural production declines on its asset base. There can be no assurance that Perpetual will be successful in developing or acquiring additional reserves on terms that meet the Corporation's investment objectives.

Other risks and uncertainties affecting Perpetual's operations are substantially unchanged from those presented in the Corporation's MD&A for the year ended December 31, 2012.

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 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 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; cash dividends, and the funding and tax treatment thereof; 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 the implementation of IFRS and its 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 and construction 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.

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.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at	March 31, 2013	December 31, 2012
(Cdn$ thousands, unaudited)		
Assets		
Current assets		
Cash and cash equivalents	**$ 29,993**	$ -
Accounts receivable	**36,047**	33,787
Prepaid expenses and deposits	**2,682**	2,928
Marketable securities	**1,924**	1,963
Derivatives (note 10)	**3,433**	3,703
Assets held for sale (note 3)	**-**	22,321
	74,079	64,702
Equity-method investment (note 6)	**5,784**	5,493
Property, plant and equipment (note 4)	**585,536**	570,415
Exploration and evaluation (note 5)	**80,259**	80,494
	671,579	656,402
Total assets	**$ 745,658**	$ 721,104
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 47,865**	$ 47,315
Share based payment liability	**14**	24
Derivatives (note 10)	**4,727**	1,452
Liabilities associated with assets held for sale (note 3)	**-**	93
	52,606	48,884
Derivatives (note 10)	**8,026**	8,402
Long term bank debt (note 7)	**64,042**	77,974
Senior notes	**147,311**	147,177
Convertible debentures	**152,398**	151,673
Gas over bitumen royalty obligation	**44,571**	44,553
Decommissioning obligations	**207,656**	206,379
	624,004	636,158
Total liabilities	**676,610**	685,042
Equity		
Share capital	**1,255,856**	1,255,450
Equity component of convertible debentures	**13,988**	13,988
Contributed surplus	**19,556**	19,308
Deficit	**(1,220,352)**	(1,252,684)
Total equity	**69,048**	36,062
Total liabilities and equity	**$ 745,658**	$ 721,104

Subsequent event (notes 6 and 7)

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 March 31	
	2013	2012
(Cdn$ thousands, except per share amounts, unaudited)		
Revenue		
Oil and natural gas	**$ 42,477**	$ 51,197
Royalties	**(2,476)**	(3,618)
	40,001	47,579
Change in fair value of commodity price derivatives (note 10)	**(405)**	23,697
Gas over bitumen	**1,120**	1,013
	40,716	72,289
Expenses		
Production and operating	**18,153**	21,926
Transportation	**2,355**	2,139
Exploration and evaluation (note 5)	**1,417**	2,488
General and administrative	**5,876**	8,166
(Gain) loss on dispositions (notes 3 and 4)	**(51,099)**	14,132
Depletion and depreciation (note 4)	**21,692**	28,061
	(1,606)	76,912
Income (loss) from operating activities	**42,322**	(4,623)
Financial items		
Interest (note 8)	**7,985**	10,206
Accretion on decommissioning obligations	**983**	1,333
Loss (gain) on marketable securities	**39**	(1,057)
Unrealized loss on call option	**1,274**	-
Unrealized gain on gas storage obligation derivative	**-**	(2,576)
	10,281	7,906
Share of net income of equity-method investment (note 6)	**291**	-
Income (loss) before tax	**32,332**	(12,529)
Deferred income tax expense	**-**	511
Net income (loss) and comprehensive income (loss)	**$ 32,332**	$ (13,040)
Income (loss) per share (note 11)		
Basic	**$ 0.22**	$ (0.09)
Diluted	**$ 0.21**	$ (0.09)

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	-	-	-	32,332	32,332
Common shares issued – Restricted Rights Plan	406	-	(406)	-	-
Share based compensation expense	-	-	644	-	644
Share based payment liability	-	-	10	-	10
Balance at March 31, 2013	**$ 1,255,856**	**$ 13,988**	**$ 19,556**	**$ (1,220,352)**	**$ 69,048**

(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 loss	-	-	-	(13,040)	(13,040)
Common shares issued – Restricted Rights Plan	92	-	(92)	-	-
Share based compensation expense	-	-	1,317	-	1,317
Share based payment liability	-	-	35	-	35
Balance at March 31, 2012	$ 1,254,365	$ 13,988	$ 16,756	$ (1,219,546)	$ 65,563

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

(Cdn$ thousands, unaudited)	For the three months ended March 31 **2013**	2012
Cash flows from operating activities		
Net income (loss)	**$ 32,332**	$ (13,040)
Adjustments to add (deduct) non-cash items:		
Depletion and depreciation	**21,692**	28,061
Accretion on decommissioning obligations	**983**	1,333
Exploration and evaluation (note 5)	**-**	1,454
(Gain) loss on dispositions	**(51,099)**	14,132
Change in fair value of commodity price derivatives (note 10)	**1,895**	(18,167)
Interest	**859**	1,115
Loss (gain) on marketable securities	**39**	(1,057)
Share based compensation expense	**644**	1,298
Unrealized gain on gas storage obligation derivative	**-**	(2,576)
Unrealized loss on call option	**1,274**	-
Share of net income of equity-method investment	**(291)**	-
Deferred income tax expense	**-**	511
Gas over bitumen royalty obligation adjustments	**432**	1,060
Gas over bitumen royalty obligation adjustments not yet received	**(414)**	(1,333)
Expenditures on decommissioning obligations	**(402)**	(893)
Change in non-cash working capital (note 9)	**(2,360)**	5,002
Net cash from operating activities	**5,584**	16,900
Cash flows used in financing activities		
Change in bank debt	**(13,932)**	(40,263)
Change in non-cash working capital (note 9)	**(4,106)**	(2,876)
Net cash used in financing activities	**(18,038)**	(43,139)
Cash flows from investing activities		
Acquisitions	**(1,803)**	(837)
Capital expenditures	**(38,682)**	(30,685)
Proceeds on dispositions (notes 3 and 4)	**77,930**	63,390
Proceeds on sale of marketable securities	**-**	2,120
Change in non-cash working capital (note 9)	**5,002**	(7,749)
Net cash from investing activities	**42,447**	26,239
Change in cash	**29,993**	-
Cash and cash equivalents, beginning of period	**-**	-
Cash and cash equivalents, end of period	**$ 29,993**	$ -
Interest paid	**$ 11,337**	$ 11,962
Taxes paid	**$ -**	$ -

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

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended March 31, 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 three months ended March 31, 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 May 13, 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) Cash and cash equivalents

Cash and cash equivalents includes cash on hand and short-term investments with a maturity of less than 90 days at the time of purchase.

ii) 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 and 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

	Oil and Gas Properties	Exploration and Evaluation	Liabilities	Total
Cost				
December 31, 2012	4,709	17,700	(93)	22,316
Additions	1,581	-	-	1,581
Acquisitions	-	1,193	-	1,193
Dispositions	(6,290)	(18,893)	93	(25,090)
March 31, 2013	**-**	**-**	**-**	**-**
Accumulated depletion				
December 31, 2012	(88)	-	-	(88)
Dispositions	88	-	-	88
March 31, 2013	**-**	**-**	**-**	**-**
Carrying amount				
December 31, 2012	4,621	17,700	(93)	22,228
March 31, 2013	**-**	**-**	**-**	**-**

During the first quarter of 2013, the Corporate 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 of multiple 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	37,841	51	37,892
Transferred from exploration and evaluation	811	-	811
Dispositions	(8,952)	-	(8,952)
March 31, 2013	**2,503,140**	**6,338**	**2,509,478**

	Oil and Gas Properties	Corporate Assets	Total
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	(21,571)	(121)	(21,692)
Dispositions	7,062	-	7,062
March 31, 2013	**(1,918,340)**	**(5,602)**	**(1,923,942)**
Carrying amount			
December 31, 2012	569,609	806	570,415
March 31, 2013	**584,800**	**736**	**585,536**

At March 31, 2013, property, plant and equipment included $7.7 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 three months ended March 31, 2013, the Corporation disposed of oil and natural gas properties for cash proceeds of $1.1 million (2012 – $63.4 million). Losses on dispositions totaling $0.7 million (2012 – $14.1 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	17
Acquisitions	559
Transferred to property, plant and equipment	(811)
March 31, 2013	**80,259**

During the three months ended March 31, 2013, $1.4 million (2012 – $1.0 million) in costs were charged directly to E&E expense in net income.

6. EQUITY-METHOD INVESTMENT

Perpetual's equity method investment consists of a 10 percent interest in Warwick Gas Storage Limited Partnership ("WGS LP") which operates a gas storage facility in Alberta, Canada. 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").

For the three months ended March 31, 2013, Perpetual recognized $0.3 million (2012 – nil) in income representing its share of net income of WGS LP.

On April 25, 2013, Perpetual exercised a portion of the WGS Call Option to repurchase a 20 percent interest in WGS LP for total interest in the gas storage facility of 30 percent upon closing. The partial exercise of the WGS LP Call Option will cost $19.0 million while the remaining unexercised portion has expired.

7. LONG TERM BANK DEBT

The Corporation's credit facility is with a syndicate of Canadian chartered banks. The revolving nature of the credit facility expires on October 31, 2013. Upon expiry of the revolving feature of the facility, should it not be extended, amounts outstanding as of the expiry date will have a term to maturity date of an additional 364 days. 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 consisting of a demand loan of $95 million; a working capital facility of $15 million, and a $15 million acquisition facility that matures on July 31, 2013. The $15 million acquisition facility has been made available to facilitate the exercise of the WGS LP Call Option (note 6). The next redetermination of the Corporation's borrowing base will occur on or before October 31, 2013.

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 March 31, 2013. In addition to amounts outstanding under the credit facility, the Corporation has outstanding letters of credit in the amount of $6.1 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 March 31, 2013 was 5.4 percent (December 31, 2012 – 5.5 percent).

8. INTEREST EXPENSE

The components of interest expense are as follows:

	For the three months ended March 31	
	2013	2012
Interest on convertible debentures	**3,569**	5,019
Interest on senior notes	**3,369**	3,407
Interest on debt	**1,047**	1,780
Interest expense	**7,985**	10,206

9. NON-CASH WORKING CAPITAL INFORMATION

	For the three months ended March 31	
	2013	2012
Accounts receivable	**(2,260)**	5,763
Prepaid expenses and deposits	**246**	386
Accounts payable and accrued liabilities	**550**	(11,772)
Change in non-cash working capital	**(1,464)**	(5,623)

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

	For the three months ended March 31	
	2013	2012
Operating	**(2,360)**	5,002
Financing	**(4,106)**	(2,876)
Investing	**5,002**	(7,749)
Change in non-cash working capital (1)	**(1,464)**	(5,623)

(1) Change in non-cash working capital for the three months ended March 31, 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.

10. FINANCIAL RISK MANAGEMENT

The Corporation has exposure to credit risk, liquidity risk and market risk from its use of financial instruments. The Corporation's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended December 31, 2012.

a) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they are due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking harm to the Corporation's reputation.

The Corporation anticipates that cash flows including cash flow from operating activities, proceeds from closed and potential future asset dispositions and available funds from the Corporation's credit facility will provide the required funds to discharge the Corporation's obligations, carry out exploration and development programs and fund ongoing operations for the foreseeable future.

The following are the contractual maturities of financial liabilities and associated interest payments as at March 31, 2013:

Contractual repayments of financial liabilities	Total	2013	2014	2015-2017	Thereafter
Accounts payable and accrued liabilities	**47,865**	47,865	-	-	-
Derivatives	**12,753**	2,997	6,921	2,835	-
Long term bank debt – principal (1)	**64,042**	-	64,042	-	-
Senior notes – principal	**150,000**	-	-	-	150,000
Convertible debentures (2)	**159,972**	-	-	159,972	-
Total	**434,632**	50,862	70,963	162,807	150,000

(1) The revolving feature of the credit facility expires on October 31, 2013 if not extended. Upon expiry of the revolving feature of the credit facility, should it not be extended, amounts outstanding as of the expiry date will have a term to maturity date of 364 days.

(2) Assuming repayment of principal is not settled in Common Shares, at the option of the Corporation.

b) Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by the world economic events that dictate the levels of supply and demand. The Corporation has attempted to mitigate commodity price risk through the use of various financial derivatives and fixed-price physical delivery sales contracts. The Corporation's policy is to enter into financial and forward physical gas sales contracts up to a maximum of 60 percent of the trailing quarter's production including gas over bitumen deemed production, as limited by the Corporation's credit facility. Further, hedged oil or condensate-based volumes for a given term are limited to 80 percent of the average forecast future oil and condensate production volume after royalties and hedged natural gas-based volumes for a given term are limited to 80 percent of the average forecast future natural gas production volume after royalties plus 40 percent of the forecast future gas over bitumen deemed production volumes as outlined in the Corporation's Hedging and Risk Management Policy. For the purposes of these limitations, basis and differential volumes are counted at 25 percent and unexercised call or put options are counted at 50 percent of the contract volumes.

As at March 31, 2013, the Corporation has variable priced physical natural gas sales contracts based on future market prices. These contracts are not classified as non-financial derivatives due to the fact that the settlement price corresponds directly with fluctuations in natural gas prices.

Realized gains on commodity price derivatives recognized in net income for the three months ended March 31, 2013 were $1.5 million (2012 – $5.5 million). The realized gains on commodity price derivatives for the three months ended March 31, 2013, included $1.0 million in call option premiums received (2012 – nil).

Natural gas contracts

At March 31, 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
Physical	sold	26,500	$3.39	April 2013
Physical	bought	(6,500)	$3.14	April 2013
Financial (1)	sold	24,500	$3.43	April 2013 – December 2013
Financial	sold	2,500	$3.52	May 2013 – December 2013
Financial	bought	(9,500)	$3.10	April 2013 – December 2013

(1) This derivative transaction is part of 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 March 31, 2013, the Corporation had entered into the following financial call option gas sales arrangements, whereby the Corporation's counterparty has the right to settle specified volumes of natural gas 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 AECO (Gj/d)	Price ($/Gj)	Term
Financial	sold	10,000	$4.25	January 2014 – December 2014

Oil contracts

At March 31, 2013, the Corporation had entered into a financial and forward physical oil sales arrangement to fix the basis differential between the West Texas Intermediate ("WTI") and Western Canadian Select ("WCS") trading hubs as follows. The price at which this contract settles 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	1,000	($23.75)	April 2013 – December 2013
Financial	sold	1,000	($22.15)	May 2013 – December 2013
Financial	sold	250	($21.50)	May 2013 – December 2013

At March 31, 2013 the Corporation had entered into the following costless collar oil sales arrangements:

Type of Contract	Perpetual Sold/Bought	Volumes at WTI (bbl/d)	Price ($USD/bbl)	Term
Call	sold	500	$108.75	April 2013 – December 2013
Put	bought	(500)	$95.00	April 2013 – December 2013
Call (1)	sold	500	$118.15	April 2013 – December 2013
Put	bought	(500)	$95.00	April 2013 – December 2013
Call	sold	500	$89.65	April 2013 – December 2013
Put	bought	(500)	$80.00	April 2013 – December 2013
Call	sold	250	$97.00	April 2013 – December 2013
Put	bought	(250)	$90.00	April 2013 – December 2013
Call	sold	500	$91.10	January 2014 – December 2014
Put	bought	(500)	$85.00	January 2014 – December 2014
Call	sold	500	$91.20	January 2014 – December 2014
Put	bought	(500)	$85.00	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.

At March 31, 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 (1)	sold	1,000	$105.00	January 2014 – December 2014
Financial (1)	sold	1,000	$105.00	January 2014 – December 2014
Financial (2)	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) These oil call options are part of paired transactions in which the proceeds from the sale of the call options were used to fund the 2012 natural gas contract price.

(2) 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.

At March 31, 2013, the Corporation had entered into the following fade-in swap agreement:

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	April 2013 – December 2013

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.

Foreign exchange contracts

At March 31, 2013, the Corporation had entered into the following $USD forward sales arrangement to limit the Corporation's 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	April 2013 – December 2013
Financial	sold	$1,000,000	$1.0400	April 2013 – December 2013
Financial	sold	$1,000,000	$1.0450	April 2013 – December 2013
Financial	sold	$1,000,000	$1.0500	April 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 USD$1,000,000 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.

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 loss on financial natural gas and oil contracts	(6,015)	(1,828)	(7,843)
Unrealized gain on financial oil call swaptions	636	-	636
Unrealized gain (loss) on oil call options	(919)	4,291	3,372
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 loss on financial natural gas and oil contracts	(6,268)	(288)	(6,556)
Unrealized gain (loss) on financial oil call swaptions	2,922	(2,051)	871
Unrealized gain on oil call options	401	2,715	3,116
Unrealized gain on forward foreign exchange contracts	674	-	674
Change in fair value of WGS LP Call Option	(1,274)	-	(1,274)
March 31, 2013	**(1,294)**	**(8,026)**	**(9,320)**

Derivative assets and liabilities presented in the statement of financial position are shown net of offsetting assets or liabilities where the arrangement provides for net settlement. The following table reconciles the gross derivative assets or liabilities to the net amount per statement of financial position:

	Current	**Non Current**	**Total**
Gross amounts of recognized derivative assets	4,119	-	4,119
Gross amounts of recognized derivative liabilities offset in the statement of financial position	(686)	-	(686)
Net derivative assets	3,433	-	3,433
Gross amounts of recognized derivative liabilities	(6,576)	(8,026)	(14,602)
Gross amounts of recognized derivative assets offset in the statement of financial position	1,849	-	1,849
Net derivative liabilities	(4,727)	(8,026)	(12,753)
March 31, 2013	**(1,294)**	**(8,026)**	**(9,320)**

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

	For the three months ended March 31	
	2013	2012
Realized gain on natural gas and oil contracts	**495**	5,160
Call option premiums received	**953**	-
Realized gain on forward foreign exchange contracts	**42**	370
Unrealized gain (loss) on natural gas and oil contracts	**(6,556)**	14,878
Unrealized gain (loss) on financial oil call swaption	**871**	(831)
Unrealized gain on physical natural gas contracts	**-**	4,242
Unrealized gain (loss) on oil call options	**3,116**	(316)
Unrealized loss on power contracts	**-**	(619)
Unrealized gain on forward foreign exchange contracts	**674**	813
	(405)	23,697

Natural gas sensitivity analysis

As at March 31, 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 $1.7 million. Fair value sensitivity was based on published forward AECO prices.

c) Fair value of financial assets and liabilities

Fair value measurements are required to be classified into one of the following levels of the fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – Inputs for the asset or liability that are not based on observable market data.

The fair value of accounts receivable, accounts payable and accrued liabilities approximate their carrying amounts due to their short terms to maturity.

Bank debt bears interest at a floating market rate and accordingly the fair market value approximates the carrying amount.

The fair value of financial assets and liabilities were as follows:

	March 31, 2013			December 31, 2012		
		Fair value			Fair value	
	Carrying Amount	**Level 1**	**Level 2**	Carrying Amount	Level 1	Level 2
Financial assets:						
Fair value through profit and loss						
Marketable securities	**1,924**	**1,924**	**-**	2,928	2,928	-
Derivatives	**3,433**	**-**	**3,433**	3,703	-	3,703
Financial liabilities:						
Financial liabilities at amortized cost						
Senior notes	**147,311**	**-**	**142,313**	147,177	-	144,000
Convertible debentures	**152,398**	**151,367**	**-**	151,673	151,123	-
Fair value through profit and loss						
Derivatives	**12,753**	**-**	**12,753**	9,854	-	9,854

11. PER SHARE INFORMATION

	For the three months ended March 31	
($ thousands)	**2013**	2012
Net income (loss) - basic	**32,332**	(12,529)
Effect of dilutive securities	**3,569**	-
Net income (loss) - diluted	**35,901**	(12,529)
(thousands)		
Weighted average common shares outstanding - basic	**147,672**	146,977
Effect of dilutive securities	**23,995**	-
Weighted average common shares outstanding - diluted	**171,667**	146,977
Income (loss) per share		
Basic	**$ 0.22**	$ (0.09)
Diluted	**$ 0.21**	$ (0.09)

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

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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

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Canadian Imperial Bank of Commerce

The Bank of Nova Scotia

The Toronto-Dominion Bank

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ATB Financial

RESERVE EVALUATION CONSULTANTS

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FORWARD-LOOKING INFORMATION

Certain information regarding Perpetual in this report including management's assessment of future plans and operations may constitute forward-looking statements under applicable securities laws. The forward-looking information includes, without limitation, statements regarding access to capital; forecast production levels, production capability, funds flows, and timing thereof; operational plans including acquisition and disposition plans; current plans for the gas storage facility; forecast and realized commodity prices; forecast, funding and allocation of capital expenditures and timing thereof; anticipated operating cost sustainability; projected use of funds flow; planned drilling and development and the results thereof; expected levels of indebtedness under the credit facility and future borrowing base levels; the method of repaying Perpetual's outstanding convertible debentures; marketing and transportation plans; reserve estimates; and estimated funds flow sensitivity. Various assumptions were used in drawing the conclusions or making the forecasts and projections contained in the forward-looking information contained in this report, which assumptions are based on management analysis of historical trends, experience, current conditions, and expected future developments pertaining to Perpetual and the industry in which it operates as well as certain assumptions regarding the matters outlined above. Forward-looking information is based on current expectations, estimates and projections that involve a number of risks, which could cause actual results to vary and in some instances to differ materially from those anticipated by Perpetual and described in the forward-looking information contained in this report. Undue reliance should not be placed on forward-looking information, which is not a guarantee of performance and is subject to a number of risks or uncertainties, including without limitation those described under "Risk Factors" in Perpetual Energy Inc.'s Annual Information Form and MD&A for the year ended December 31, 2012 and quarter ended March 31, 2013 and those included in reports on file with Canadian securities regulatory authorities which may be accessed through the SEDAR website (www.sedar.com and at Perpetual's website www.perpetualenergyinc.com). Readers are cautioned that the foregoing list of risk factors is not exhaustive. Forward-looking information is based on the estimates and opinions of Perpetual's management at the time the information is reported and Perpetual disclaims any intent or obligation to update publicly any such forward-looking information, whether as a result of new information, future events or otherwise, other than as expressly required by applicable securities laws. For more information, please refer to "Forward-Looking Information" on page 19 of this report.

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