A SPECTRUM OF OPPORTUNITY

Q2 | 2013

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

Perpetual remains focused on 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.

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

Operations highlights

- Oil and natural gas liquids ("NGL or liquids") production of 4,384 bbl/d in the second quarter was 26 percent higher than the first quarter of 2013 and 27 percent higher than the second quarter of 2012 as a result of Perpetual's focus on commodity diversification with capital spending directed to the development of oil and liquids-rich natural gas assets.
- Oil and NGL production represented 22 percent of the Corporation's total quarterly production, up from 16 percent in the prior year's quarter and 19 percent in the first quarter of 2013. Oil and NGL production represented 18 percent of the Corporation's total actual plus deemed gas over bitumen production for the second quarter of 2013.
- Natural gas production of 91.9 MMcf/d increased four percent from the first quarter of 2013 (88.6 MMcf/d) with new production tied-in from liquids-rich Wilrich gas wells drilled in late 2012. Compared with the 2012 second quarter, natural gas production decreased 13 percent due to asset dispositions and natural declines as the operational focus has shifted to more profitable oil and NGL projects.
- Average production (including deemed production) for the second quarter was 23,725 boe/d, up six percent from the preceding first quarter of 2013. Compared to the second quarter 2012, total actual and deemed production was down seven percent, reflecting the impact of property dispositions completed in 2012.

Financial highlights

- Funds flow of $17.3 million ($0.12/common share) increased 36 percent from last year's second quarter and 81 percent from the first quarter of 2013, as a result of stronger natural gas prices combined with increased production from higher netback oil and liquids-rich natural gas properties.
- Operating netbacks of $14.81/boe increased 14 percent from second quarter 2012, reflecting higher commodity prices and the increased percentage of higher priced oil and NGL in the production mix.
- Realized natural gas prices, before derivatives, increased 74 percent to $3.68/Mcf in the second quarter of 2013 from $2.12/Mcf in 2012, reflecting the increase in AECO Monthly Index prices quarter over quarter. With Perpetual's hedge position in 2012 and 2013, realized natural gas prices, including derivatives, increased 19 percent from the prior year's quarter to $3.90/Mcf.
- Perpetual's oil and NGL price, before derivatives, of $66.18/bbl increased eight percent from second quarter 2012 following a marginal increase in West Texas Intermediate Index ("WTI") prices as well as a narrowing of WTI to the Western Canadian Select ("WCS") differential price.
- Second quarter exploration and development spending of $10.4 million remained focused on two key plays: Mannville heavy oil and Edson liquids-rich gas. Expenditures included installation of facilities for the start-up of production from the active first quarter Mannville heavy oil drilling program, drilling two (2.0 net) Mannville heavy oil wells to kick off the year's second half Mannville drilling program, and expenditures related to facilities enhancements and construction of a sales pipeline at West Edson.

- Acquisition costs for the second quarter included $19.1 million to buy back an additional 20 percent interest in the Warwick Gas Storage ("WGS LP") business as well as $5.4 million for additional undeveloped land in the West Central district which the Corporation considers prospective for liquids-rich natural gas.

Maximize value of Mannville heavy oil

- Second quarter exploration and development activities in the Mannville area focused on installation of facilities and production start-up operations on wells drilled during the first quarter drilling program. As a result, 26 (24.7 net) new wells from the winter drilling program were on production by the end of the second quarter.
- Mannville heavy oil production continued to increase with second quarter production of 3,575 bbl/d, up 30 percent from the preceding first quarter of 2013 (2,754 bbl/d) as a result of capital spending allocated to heavy oil projects during the first quarter.
- Operating netbacks for heavy oil production from the Mannville area improved to $36.10/bbl from $34.64/bbl in the prior year's quarter due to increased onsite processing and drying of oil which allows access to enhanced oil marketing opportunities and improved pricing. The Corporation shipped 1,300 bbl/d to market through rail arrangements in the second quarter whereas there were no shipments via rail in the prior year. With access to a newly constructed third party rail terminal at Mannville, Perpetual expects netbacks to improve further.
- Perpetual began its second half drilling program after spring break-up with two (2.0 net) wells drilled before the end of the second quarter and an additional three (3.0 net) wells drilled in early July. Two wells were drilled as multi-laterals, resulting in a total of seven (7.0 net) new horizontal laterals. Preliminary results are in line with expected type curves and budget volumes and facilities work to optimize production on these new wells is ongoing. Up to nine (8.7 net) Mannville heavy oil wells are planned for the remainder of the second half of 2013.
- On July 15, 2013, Perpetual received regulatory approval to initiate a waterflood in a portion of the Mannville I2I pool for pressure maintenance to reduce the Sparky pool's decline rate and enhance recoverable oil reserves. Water injection is expected to commence in the fourth quarter of 2013. Planning is underway to convert this waterflood to a polymer flood in late 2014.

Position for growth of Edson liquids-rich gas

- Perpetual began enhancements to the West Edson compressor station during the second quarter, including the installation of refrigeration and liquids handling equipment. Construction of a 15.5 km sales gas pipeline also began during the second quarter. Start-up of the new plant components and sales gas pipeline is expected in the third quarter of 2013.
- Construction at the gas plant to complement the 30 MMcf/d compressor station (50 percent net to Perpetual) and the sales pipeline will allow Perpetual to benefit from marketing and transportation agreements with Aux Sable Canada and Alliance Canada which allow access to a premium market in the mid-west United States. The facility and pipeline projects combined with the new marketing and transportation arrangements are expected to reduce operating costs, decrease downtime and increase overall netbacks for the West Edson production.
- Perpetual increased its acreage position in the West Central district during the second quarter, primarily through undeveloped land acquisitions totaling $5.4 million. The lands acquired are viewed by the Corporation to be highly prospective for future Wilrich development as well as horizontal development of several other Cretaceous zones. Capital activities are planned for the second half of 2013 to evaluate the new acreage and prove up additional future drilling locations to enhance the Corporation's deep basin prospect inventory.
- Drilling operations in the West Central district recommenced in early July following spring break-up. Perpetual expects to drill up to six (3.0 net) horizontal wells during the second half of 2013, primarily at West Edson to grow production to fill the 30 MMcf/d (15 MMcf/d net) capacity of the new facility. Included in the second half drilling program are two (1.0 net) exploratory delineation wells targeting to prove up additional liquids-rich gas horizontal drilling inventory.

Manage downside risk and reduce debt

- In April 2013 Perpetual's bank syndicate completed its annual borrowing base review which resulted in a revision to its credit facility to $125 million (from $127.5 million), stepping down to $110 million on July 31, 2013. The 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.
- Total net debt, including net bank debt, convertible debentures and Senior Notes, decreased by $31.8 million over the prior year's quarter to $370.1 million at June 30, 2013, a decrease of eight percent, and a seven percent decline from year end 2012.
- Near term natural gas prices at AECO have weakened for summer and fall 2013 as lower than normal temperatures throughout North American have reduced expected electrical demand for summer cooling. In addition, the AECO basis differential has widened considerably since the end of the second quarter, driven by changes in interruptible tolls put in place on the TransCanada Mainline. To manage downside risk, Perpetual has in place natural gas hedges on 50 percent of forecast actual and deemed production for the remainder of 2013 (September through December 2013) with an average of 60,000 GJ/day of natural gas production hedged at AECO at an average price of $3.38/GJ. These hedges bring certainty to a portion of funds flow for the remainder of 2013 and support planned capital programs.
- To reduce exposure to fluctuations in oil prices, Perpetual has oil sales arrangements for 2,250 bbl/d for the remainder of 2013, protecting an average WTI index floor price of US$88.22/bbl with an average ceiling price of US$101.18/bbl. The Corporation has also entered into financial contracts for 2,250 bbl/d to fix the basis differential between the WTI and WCS trading hubs at an average of US$(22.79)/bbl.

- In June 2013, Perpetual commenced purchasing for cancellation under a normal course issuer bid (the "Bid") up to a maximum of $7,536,000 principal amount of 7.25 percent convertible extendible unsecured subordinated debentures (the "7.25% Debentures") and $3,873,000 principal amount of 7.00 percent convertible extendible unsecured subordinated debentures due December 31, 2015 (the "7.00% Debentures"). The daily limits on purchases under the Bid are $9,000 7.25% Debentures and $14,000 7.00% Debentures, based on 25 percent of average daily trading volumes for the prior six months. Purchases to June 30 were $35,242 for the 7.25% Debentures and $67,045 for the 7.00% Debentures.

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

- Funding approval through the Alberta government's Innovative Energy Technology Program ("IETP") was received for Perpetual's Low-Pressure Electro-Thermally Assisted Drive ("LEAD") pilot project to develop bitumen in the Bluesky reservoir in the Panny area of northeast Alberta. The total capital and operating costs for the pilot project are estimated at $18.2 million. Approved funding through IETP is 30 percent of actual eligible costs to a maximum of $5.5 million. Perpetual plans to activate the IETP funding with the drilling of a water source well in the third quarter of 2013. Application for regulatory approval for the LEAD pilot has been submitted but, as operations are largely restricted by winter access conditions, Perpetual does not expect material capital spending on the project to commence until winter 2014/2015.
- During the second quarter, Perpetual exercised its option to acquire an additional 20 percent interest in WGS LP. Pursuant to the option agreement, the Corporation paid $19.1 million and increased its interest in WGS LP to 30 percent from 10 percent. Since April 2012, through new drilling and delta pressuring approvals, WGS LP has increased the working gas capacity of the storage facility to 21.5 Bcf from 17 Bcf.

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

- Production from shallow gas base assets was 65.5 MMcf/d in the second quarter of 2013, representing 71 percent of Perpetual's natural gas production. These assets have significant leverage to higher funds flow with improved natural gas prices.
- 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 for these shallow gas assets were $12.9 million in the second quarter of 2013, down three percent ($0.4 million) from the second quarter of 2012.
- A significant number of highly profitable shallow gas recompletions and workovers have been reviewed and high graded. Capital spending will occur primarily in 2014 as Perpetual expects improved AECO natural gas prices will generate higher returns on these activities.

2013 Outlook

Perpetual expects capital spending for 2013 to be $75 to $85 million. Consistent with the strategy in the first half, capital spending in the second half will be driven by Perpetual's commodity diversification strategy, with spending focused on Mannville heavy oil drilling and liquids-rich gas horizontal drilling and infrastructure in the West Central district in the Alberta deep basin. Planned capital spending for the remainder of the second half of 2013 includes up to nine (8.7 net) Mannville heavy oil wells, up to six (3.0 net) liquids-rich natural gas wells in the West Central district and additional facility and infrastructure spending on the Corporation's West Edson facilities.

In addition, Perpetual will continue to pursue dispositions with proceeds from any potential divestitures to be utilized to strengthen the balance sheet. Perpetual may adjust its planned capital spending program based on prevailing commodity prices as allowed by the Corporation's diverse inventory of exploration and development opportunities.

Perpetual estimates that 2013 funds flow will total $60 to $70 million based on current forward commodity prices with oil and liquids production averaging 3,900 to 4,200 bbl/d and natural gas averaging 85 to 95 MMcf/d.

Susan Riddell Rose

President and Chief Executive Officer

August 9, 2013

FINANCIAL AND OPERATING HIGHLIGHTS

($Cdn thousands except volume and per share amounts)	Three months ended June 30			Six months ended June 30		
	2013	2012	% Change	**2013**	2012	% Change
Financial						
Revenue [1] [2]	**58,460**	50,762	15	**102,427**	107,489	(5)
Funds flow [2]	**17,286**	12,668	36	**26,820**	27,169	(1)
Per share [2] [3]	**0.12**	0.09	30	**0.18**	0.18	1
Net earnings (loss)	**(5,327)**	25,899	(121)	**27,005**	12,859	110
Per share – basic [3]	**(0.04)**	0.18	(122)	**0.18**	0.09	100
Per share – diluted [3]	**(0.04)**	0.17	(124)	**0.18**	0.09	100
Total assets	**708,616**	840,118	(16)	**708,616**	840,118	(16)
Net bank debt outstanding [2]	**60,226**	91,940	(34)	**60,226**	91,940	(34)
Senior notes, at principal amount	**150,000**	150,000	-	**150,000**	150,000	-
Convertible debentures, at principal amount	**159,867**	159,972	-	**159,867**	159,972	-
Total net debt [2]	**370,093**	401,912	(8)	**370,093**	401,912	(8)
Shareholders’ equity	**64,458**	93,958	(31)	**64,458**	93,958	(31)
Capital expenditures						
Exploration and development [4]	**10,360**	9,606	8	**49,816**	40,617	23
Acquisitions, net of dispositions	**5,349**	(80,650)	107	**(70,829)**	(143,342)	(51)
Other	**33**	14	136	**84**	204	(59)
Net capital expenditures	**15,742**	(71,030)	122	**(20,929)**	(102,521)	(80)
Common shares outstanding (thousands)						
End of period	**148,274**	147,114	1	**148,274**	147,114	1
Weighted average	**148,015**	147,056	1	**147,853**	147,016	1
Shares outstanding at August 9, 2013	**148,346**			**148,346**		
Operating						
Daily average production						
Natural gas (MMcf/d) [5]	**91.9**	105.1	(13)	**90.2**	109.4	(18)
Oil and NGL (bbl/d) [5]	**4,384**	3,446	27	**3,937**	3,460	14
Total (boe/d) [5]	**19,708**	20,962	(6)	**18,980**	21,695	(13)
Gas over bitumen deemed production (MMcf/d) [6]	**24.1**	27.7	(13)	**24.5**	27.7	(12)
Average daily (actual and deemed – boe/d) [5] [6]	**23,725**	25,579	(7)	**23,063**	26,312	(12)
Per common share (boe/d/share) [3]	**0.16**	0.17	(6)	**0.16**	0.18	(11)
Average prices						
Natural gas, before derivatives ($/Mcf)	**3.68**	2.12	74	**3.43**	2.32	48
Natural gas, including derivatives ($/Mcf)	**3.90**	3.28	19	**3.60**	3.20	13
Oil and NGL, before derivatives ($/bbl)	**66.18**	61.10	8	**61.15**	65.43	(7)
Oil and NGL, including derivatives ($/bbl)	**64.84**	58.58	11	**61.31**	62.61	(2)
Barrel of oil equivalent, including derivatives ($/boe)	**32.60**	26.07	25	**29.82**	26.14	14
Land (thousands of net acres)						
Undeveloped land holdings	**1,584**	1,756	(10)	**1,584**	1,756	(10)
Drilling (wells drilled gross/net)						
Gas	**-/-**	-/-	-/-	**-/-**	4/3.5	(100)/(100)
Oil	**2/2.0**	6/6.0	100/100	**29/27.7**	22/21.3	32/30
Total	**2/2.0**	6/6.0	(67)/(67)	**29/27.7**	26/24.8	12/12
Success rate (%)	**100/100**	100/100	-/-	**100/100**	100/100	-/-

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

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

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is management's discussion and analysis ("MD&A") of Perpetual Energy Inc.'s ("Perpetual" or the "Corporation") operating and financial results for the three and six months ended June 30, 2013 as well as information and estimates concerning the Corporation's future outlook based on currently available information. This discussion should be read in conjunction with the Corporation's condensed interim consolidated financial statements and accompanying notes for the three and six months ended June 30, 2013 and 2012 as well as the audited consolidated financial statements and accompanying notes for the years ended December 31, 2012 and 2011. The MD&A should be read in conjunction with the Corporation's MD&A for the year ended December 31, 2012, as disclosure which is unchanged from the December 31, 2012 MD&A has not been duplicated herein. The Corporation's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") which require publicly accountable enterprises to prepare their financial statements using International Financial Reporting Standards ("IFRS"). Readers are referred to the advisories for additional information regarding "Non-GAAP Measures" as well as forecasts, assumptions and other forward-looking information contained in the "Forward Looking Information" section of this MD&A. The date of this MD&A is August 9, 2013.

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

SECOND QUARTER 2013 RESULTS

Capital expenditures

	Three months ended June 30		Six months ended June 30	
($ thousands)	**2013**	2012	**2013**	2012
Exploration and development	**9,861**	9,651	**48,543**	40,285
Geological and geophysical costs [1]	**499**	(45)	**1,273**	332
Interest in gas storage (WGS LP)	**19,129**	-	**19,129**	-
Acquisitions	**5,433**	-	**7,185**	698
Dispositions	**(84)**	(80,650)	**(78,014)**	(144,040)
Other	**33**	14	**84**	204
Total	**34,871**	(71,030)	**(1,800)**	(102,521)

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

Exploration and development expenditures of $9.9 million in the second quarter of 2013 were related to the installation of facilities on new Mannville oil wells drilled in the first quarter, the re-commencement of the Mannville heavy oil drilling program in late June after spring break-up, and enhancement of the West Edson gas processing facilities including construction of a sales pipeline. In addition, $5.4 million was allocated to undeveloped land acquisitions complementing Perpetual's land position in West Central Alberta prospective for liquids-rich gas.

No material dispositions were closed during the second quarter of 2013 as compared to $80.7 million in sale proceeds during the same period in 2012 representing primarily the sale of a 90 percent interest in the Warwick gas storage business ("WGS LP"). During the second quarter, Perpetual exercised its option to buy back an additional 20 percent interest in WGS LP for $19.1 million in cash resulting in an increase to Perpetual's interest in WGS LP from 10 percent to 30 percent. Additionally, 2.3 million related to the value of the buyback option was included in the total consideration of the equity investment.

Wells drilled

	Three months ended June 30		Six months ended June 30	
	2013	2012	**2013**	2012
Natural gas – gross (net)	**-**	-	**-**	4 (3.5)
Crude oil – gross (net)	**2 (2.0)**	6 (6.0)	**29 (27.7)**	22 (21.3)
Total – gross (net)	**2 (2.0)**	6 (6.0)	**29 (27.7)**	26 (24.8)

Production

Production by core area and commodity	Three months ended June 30		Six months ended June 30	
	2013	2012	**2013**	2012
Natural gas (MMcf/d)				
Eastern district – North	**39.2**	54.1	**39.2**	54.1
Eastern district – South (1)	**26.3**	29.7	**26.8**	31.6
West Central district	**26.4**	21.3	**24.2**	23.7
Total natural gas	**91.9**	105.1	**90.2**	109.4
Crude oil (bbl/d)				
Eastern district – North	**17**	10	**10**	9
Eastern district – South (1)	**3,575**	2,589	**3,167**	2,405
West Central district	**68**	105	**49**	144
Total crude oil	**3,660**	2,704	**3,226**	2,558
Natural gas liquids (bbl/d)				
Eastern district – North	**1**	–	**1**	1
Eastern district – South (1)	**5**	6	**6**	7
West Central district	**718**	736	**704**	894
Total natural gas liquids	**724**	742	**711**	902
Total actual production (boe/d)	**19,708**	20,962	**18,980**	21,695
Deemed natural gas production (MMcf/d)	**24.1**	27.7	**24.5**	27.7
Total actual plus deemed production (boe/d)	**23,725**	25,579	**23,063**	26,312

(1) Includes Mannville heavy oil

Second quarter actual and deemed production of 23,725 boe/d was up six percent from the first quarter of 2013 (22,403 boe/d) primarily as a result of new production from Mannville oil wells drilled in the first half of the year. Total actual production increased eight percent from 18,244 boe/d in the first quarter of 2013 to 19,708 boe/d in the second quarter. Compared to the prior year, total actual and deemed production decreased seven percent in the second quarter primarily due to non-core asset dispositions completed in 2012.

Average natural gas production of 91.9 MMcf/d for the second quarter of 2013 increased four percent from the preceding first quarter (88.6 MMcf/d) with new production from the tie in of Edson Wilrich gas wells drilled in 2012. Non-core asset dispositions and natural declines impacted natural gas production for 2013, with second quarter production down 13 percent from 105.1 MMcf/d recorded in 2012.

Oil and NGL production continued to increase in the second quarter of 2013 to 4,384 bbl/d, up 26 percent from the first quarter of 2013 (3,483 bbl/d) and up 27 percent from 3,446 bbl/d in the second quarter of 2012 as a result of a focused capital spending program on Mannville and Edson Wilrich properties consistent with the Corporation's commodity diversification strategy. Growth was also recorded in the six month period with a 14 percent increase to 3,937 bbl/d from the comparative period in 2012.

Crude oil production of 3,660 bbl/d was 35 percent higher than the prior year (Q2 2012 – 2,704 bbl/d) with production from new Mannville oil wells brought on production during the second quarter. NGL production of 724 bbl/d was down marginally from the prior year (Q2 2012 – 742 bbl/d) with the disposition of assets in the West Central district in 2012 and slightly lower NGL content from West Edson wells.

Deemed production for the second quarter of 2013 of 24.1 MMcf/d decreased 13 percent from 27.7 MMcf/d in 2012. The decrease reflects the annual 10 percent reduction assessed on deemed production volumes as well as a reduction in the number of eligible wells. Wells are only eligible for deemed production and the associated gas over bitumen royalty adjustment for 10 years following shut-in.

Commodity prices

	Three months ended June 30		Six months ended June 30	
	2013	2012	**2013**	2012
Reference prices				
AECO Monthly Index ($/Mcf)	**3.59**	1.84	**3.33**	2.18
AECO Daily Index ($/Mcf)	**3.53**	1.90	**3.36**	2.03
Alberta Gas Reference Price ($/Mcf) (1)	**3.33**	1.77	**3.12**	2.03
West Texas Intermediate ("WTI") light oil ($US/bbl)	**94.22**	93.49	**94.30**	98.21
Western Canadian Select ("WCS") differential ($US/bbl)	**(19.16)**	(22.87)	**(25.56)**	(22.14)
Average Perpetual prices				
Natural gas				
Before derivatives ($/Mcf) (2)	**3.68**	2.12	**3.43**	2.32
Percent of AECO Monthly Index	**103%**	115%	**103%**	106%
Including derivatives ("realized" gas price") ($/Mcf)	**3.90**	3.28	**3.60**	3.20
Percent of AECO Monthly Index	**109%**	178%	**108%**	147%
Oil and NGL				
Before derivatives ($/bbl)	**66.18**	61.10	**61.15**	65.43
Including derivatives ("realized" price) ($/bbl)	**64.84**	58.58	**61.31**	62.61
Barrel of Oil Equivalent				
Average realized price ($/boe)	**32.60**	26.07	**29.82**	26.14

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

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

AECO Monthly Index prices of $3.59/Mcf for the second quarter of 2013 increased 95 percent from $1.84/Mcf for the second quarter of 2012. Similarly, AECO Monthly Index prices increased 53 percent to $3.33/Mcf for the six months ended June 30, 2013 from $2.18/Mcf for the same period in 2012. Colder than normal weather in late February and March of 2013 helped reduce the surplus in U.S. natural gas storage facilities by over 800 Bcf at March 31, 2013 versus March 31, 2012, which contributed to price appreciation. Perpetual's natural gas price before derivatives increased 74 percent to $3.68/Mcf in the second quarter of 2013 from $2.12/Mcf in 2012 and increased 48 percent to $3.43/Mcf for the six months ended June 30, 2013 from $2.32 for the same period in 2012.

Perpetual's average realized second quarter gas price, including derivatives, increased to $3.90/Mcf from $3.28/Mcf in 2012 as a result of increased AECO prices as well as a $0.9 million gain realized by crystallizing forward sales contracts entered into during the fourth quarter of 2012. The Corporation's realized 2012 natural gas price was enhanced by realized gains on natural gas derivatives with close to 75 percent of Perpetual's production being economically hedged significantly above settled market prices during that period.

Perpetual's oil and NGL price, before derivatives, of $66.18/bbl increased eight percent compared to the second quarter of 2012 due to a marginal increase in WTI prices in 2013 as well as a narrowing of WTI to the WCS differential price. Oil and NGL prices, before derivatives of $61.15/bbl for the six months ended June 30, 2013 decreased seven percent from the same period in 2012 due to the impact of a widening WCS differential price during the first quarter of 2013 which more than offset the narrowing during the second quarter of 2013. Realized oil prices in 2013 were also positively impacted by delivery of higher grade oil at the sales points related to drying operations implemented at the majority of the Mannville heavy oil production pads.

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

Perpetual's total average realized commodity price of $32.60/boe for the second quarter and $29.82/boe for the six months ended June 30, 2013 increased 25 percent and 14 percent respectively from the same periods in 2012 primarily due to higher natural gas prices and the increased proportion of oil and NGL in Perpetual's production mix.

Risk management

Perpetual's risk management strategy is focused on using both physical and financial derivatives to provide increased certainty in funds flow by mitigating the effect of commodity price volatility, to lock in economics on capital programs and acquisitions, and to take advantage of perceived anomalies in commodity markets. Perpetual also utilizes foreign exchange swaps and physical or financial swaps related to the differential between natural gas prices at the AECO and NYMEX trading hubs in order to mitigate the effects of fluctuations in foreign exchange rates and basis differentials on the Corporation's realized commodity prices. The following tables provide a summary of derivative contracts in place as at August 9, 2013:

Natural Gas

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

Type of contract	Term [(1)]	Volumes at AECO (GJ/d)	Price ($/GJ) [(2)]	Futures market ($/GJ) [(3)]	Percent of 2013 gas production [(4)]
Financial – AECO	September – December 2013	60,000	3.38	2.72	50
Financial – AECO	January – December 2014	10,000	4.25	3.15	8

(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 closed forward AECO prices as of August 8, 2013.

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

Crude Oil

Costless collar oil sales arrangements:

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)]	Percent of 2013 oil production [(4)]
Collar	August – December 2013	500	95.00	108.75	101.64	12
Collar	August – December 2013	500	80.00	89.65	101.64	12
Collar	August – December 2013	250	90.00	97.00	101.64	6
Collar [(5)]	August – December 2013	500	82.00	90.25	101.64	12
Collar [(6)]	August – December 2013	500	95.00	118.15	101.64	12
Period total		2,250	88.22	101.18	101.64	54
Collar	January – December 2014	500	85.00	91.10	94.03	12
Collar	January – December 2014	500	85.00	91.20	94.03	12
Collar [(7)]	January – December 2014	500	90.00	103.15	94.03	12
Period total		1,500	86.67	95.15	94.03	36

(1) Excludes settled contracts.

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

(3) Futures market prices are based on closed forward WTI oil prices as of August 8, 2013.

(4) Calculated using forecasted 2013 oil and NGL production of 4,050 bbl/d.

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

(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/bbl in any month during the contract period Perpetual will receive a price of $US100.00/bbl.

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

Basis differential contracts between WTI and WCS trading:

Type of contract	Term [(1)]	Volumes (bbl/d)	WTI-WCS differential ($US/bbl) [(2)]	Futures market ($US/bbl) [(3)]	Percent of 2013 oil production [(4)]
Financial	September – December 2013	2,250	(22.79)	(24.61)	56
Financial	January – December 2014	1,000	(22.63)	(21.50)	25

(1) Excludes settled contracts.

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

(3) Futures market prices are based on closed forward WTI-WCS differential prices as of August 8 , 2013.

(4) Calculated using forecasted 2013 oil and NGL production of 4,050 bbl/d.

Sold oil call options:

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	94.03
Call	January – December 2014	Monthly 2014	2,000	105.00	94.03
Call	January – December 2015	Monthly 2015	1,500	100.00	88.28

(1) Futures market prices are based on closed forward WTI oil prices as of August 8, 2013.

Sold oil fixed price:

Type of contract	Term	Volumes at WTI (bbl/d)	Fixed price ($US/bbl WTI)	Futures market ($US/bbl WTI) (1)
Fixed Price	August – September 2013	750	104.75	103.40

(1) Futures market prices are based on closed forward WTI oil prices as of August 8, 2013.

Foreign Exchange

U.S. dollar forward sales arrangements:

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

(1) Excludes settled contracts.

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

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

Revenue

	Three months ended June 30		Six months ended June 30	
($ thousands, except as noted)	**2013**	2012	**2013**	2012
Petroleum and natural gas ("P&NG") revenue				
Natural gas revenue before derivatives (1)	**30,784**	20,257	**56,102**	46,179
Oil and NGL revenue before derivatives	**26,403**	19,162	**43,562**	41,202
Total P&NG revenue	**57,187**	39,419	**99,664**	87,381
Other revenue				
Gas storage revenue	**–**	1,025	**–**	4,260
Realized gains on derivatives (2)	**1,273**	10,318	**2,763**	15,848
Total other revenue	**1,273**	11,343	**2,763**	20,108
Total revenue	**58,460**	50,762	**102,427**	107,489
Per boe	**$32.60**	$26.60	**$29.81**	$27.23

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

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

Perpetual`s petroleum and natural gas revenue, before derivatives of $57.2 million for the second quarter of 2013, increased 35 percent from the preceding first quarter ($42.5 million) and 45 percent from the second quarter of 2012 ($39.4 million). Both increases are attributable to higher oil and NGL production and a larger proportion of production from oil and NGL, as well as improved commodity prices in 2013. Natural gas revenue before derivatives of $30.8 million for the second quarter increased 52 percent from $20.2 million in 2012 with increased natural gas prices more than offsetting the reduction in natural gas production associated with recent property dispositions. Oil and NGL revenues of $26.4 million were $7.2 million higher than the prior year with higher realized prices related to increased index prices as well as improved oil quality at the sales points in 2013 and increased production as a result of Perpetual's focus on commodity diversification with capital spending directed to the development of oil and liquids-rich natural gas assets.

Realized gains on derivatives in the second quarter of 2013 totaled $1.3 million compared to $10.3 million for the same period in 2012. The Corporation also recorded unrealized gains on derivatives of $6.5 million during the second quarter of 2013, representing the change in mark-to-market value of derivative contracts as forward commodity prices improve. Unrealized gains and losses on derivatives are excluded from the Corporation's calculation of funds flow as they are non-cash. Derivative gains and losses vary depending on the nature and extent of hedging contracts in place, which in turn, varies with the Corporation's assessment of commodity price risk, committed capital spending and other factors. Perpetual had anticipated the risk of a very low gas price environment's impact to funds flow in 2012. To manage the downside risk, Perpetual entered into hedging contracts which represented close to 75 percent of actual and deemed natural gas production for 2012.

Royalties

	Three months ended June 30		Six months ended June 30	
($ thousands except as noted)	**2013**	2012	**2013**	2012
Crown	**3,959**	1,472	**5,226**	3,197
Freehold and overriding	**3,429**	1,659	**4,638**	3,552
Total	**7,388**	3,131	**9,864**	6,749
Crown (% of P&NG sales)	**6.9%**	3.7%	**5.2%**	3.7%
Freehold and overriding (% of P&NG sales)	**6.0%**	4.2%	**4.7%**	4.1%
Total (% of P&NG sales)	**12.9%**	7.9%	**9.9%**	7.8%
Per boe	**$4.12**	$1.64	**$2.87**	$1.71

The Corporation's combined average royalty rate on P&NG revenues was 12.9 percent in the second quarter of 2013 compared to 7.9 percent for the same period in 2012. Crown royalties for the second quarter of 2013 were impacted by annual Crown royalty adjustments relating to the previous year for capital cost allowance, custom processing and operating costs. The Crown adjusts these deductions from a corporate level to a facility level annually in June of each year. Second quarter 2013 crown royalty expense included $2.6 million of additional costs related to annual Crown adjustments for 2012. Excluding annual Crown adjustments, Perpetual's Crown royalty rate has declined over the past two years as a result of lower natural gas prices and Alberta government royalty incentives including a reduced five percent Crown royalty rate on new wells (subject to production limits) as well as deep gas royalty holidays for qualifying natural gas wells in the Corporation's Edson area. Freehold and overriding royalties for the three months and six months ended June 30, 2013 have increased compared to the prior year as a result of increased oil production on freehold lands in the Mannville area which carry a higher freehold royalty rate than the Corporation's natural gas production and oil production on Crown lands.

Production and operating expenses

	Three months ended June 30		Six months ended June 30	
($ thousands except as noted)	**2013**	2012	**2013**	2012
P&NG production expense	**21,776**	19,785	**39,929**	39,848
Gas storage operating expense	**–**	168	**–**	2,031
Total	**21,776**	19,953	**39,929**	41,879
Per boe	**$12.15**	$10.46	**$11.62**	$10.60

Total production and operating expenses increased nine percent to $21.8 million ($12.15/boe) for the second quarter of 2013 from $20.0 million ($10.46/boe) in 2012, reflecting higher operating costs related to increased heavy oil production in 2013 and shifts in timing of property tax payments. On a year to date basis, production and operating expenses decreased from $41.9 million in 2012 to $39.9 million in 2013 as no operating expenses were recorded for the gas storage business in 2013 as a result of the change in accounting treatment. The overall reduction of the Corporation's interest beginning April 2012 resulted in the investment being accounted for using the equity method rather than line-by-line consolidation.

Transportation costs

	Three months ended June 30		Six months ended June 30	
($ thousands except as noted)	**2013**	2012	**2013**	2012
Transportation costs	**2,733**	1,972	**5,088**	4,111
Per boe	**$1.52**	$1.03	**$1.48**	$1.04

Transportation costs include clean oil trucking and transportation as well as costs to transport natural gas from the plant gate to a commercial sales point. Transportation costs for the second quarter of 2013 increased to $2.7 million from $2.0 million for the same period in 2012 primarily due to higher transportation costs on increased oil production volumes. Beginning in 2013, Perpetual increased its onsite processing of oil to meet sales point specifications, which in turn resulted in a change in classification from operating costs (emulsion trucking) to transportation costs (clean oil trucking). This change to onsite processing has enhanced oil marketing opportunities and improved the overall netback for heavy oil production from the Mannville area.

Operating netbacks

	Three months ended June 30		Six months ended June 30	
	2013	2012	**2013**	2012
Operating netback ($ thousands)				
Revenue [1][2]	**58,460**	49,737	**102,427**	103,229
Royalties	**(7,388)**	(3,131)	**(9,864)**	(6,749)
Operating costs [1]	**(21,776)**	(19,785)	**(39,929)**	(39,848)
Transportation	**(2,733)**	(1,972)	**(5,088)**	(4,111)
Total operating netback	**26,563**	24,849	**47,546**	52,521
Boe operating netback ($/boe)				
Revenue	**32.60**	26.07	**29.81**	26.14
Royalties	**(4.12)**	(1.64)	**(2.87)**	(1.71)
Operating costs	**(12.15)**	(10.37)	**(11.62)**	(10.09)
Transportation	**(1.52)**	(1.03)	**(1.48)**	(1.04)
Boe operating netback	**14.81**	13.03	**13.84**	13.30

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

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

Perpetual's operating netback of $26.6 million in the second quarter of 2013 increased seven percent from $24.8 million in the second quarter of 2012 as a result of increased production and higher commodity prices partially offset by increased royalties and operating expenses. On a boe basis, the second quarter operating netback increased 14 percent to $14.81/boe from $13.03/boe in the second quarter of 2012, which also reflects the increased percentage of higher netback production from crude oil and NGL.

Gas over bitumen ("GOB") revenue

	Three months ended June 30		Six months ended June 30	
($ thousands except as noted)	**2013**	2012	**2013**	2012
GOB royalty adjustments – revenue	**2,935**	746	**4,055**	1,759
GOB royalty adjustments – liability	**761**	612	**1,193**	1,672
Total	**3,696**	1,358	**5,248**	3,431
Per boe	**$2.06**	$0.71	**$1.53**	$0.87

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

During the second quarter of 2013, the Corporation recorded $2.9 million of GOB royalty adjustments in revenue associated with disposed wells, a $2.2 million increase from $0.7 million recorded in the second quarter of 2012. An additional $0.8 million of GOB royalty adjustments were recorded as an increase to the gas over bitumen royalty obligation for wells which are still owned by the Corporation. These increases relate to higher Alberta reference prices combined with a recovery of $1.4 million related to annual Crown royalty adjustments.

Collection of GOB royalty adjustments is limited by the Alberta government to deductions from the Corporation's monthly natural gas royalty invoices. As of June 30, 2013, the Corporation had accumulated $15.8 million (December 31, 2012 – $11.5 million) of gas over bitumen adjustments receivable of which $9.9 million (December 31, 2012 – $8.8 million) relate to wells retained by the Corporation and, therefore, have been netted against the gas over bitumen royalty obligation where the original GOB adjustments were recorded.

Exploration and evaluation

	Three months ended June 30		Six months ended June 30	
($ thousands)	**2013**	2012	**2013**	2012
Lease rentals	**753**	590	**1,396**	1,247
Geological and geophysical costs [1]	**499**	(45)	**1,273**	332
Lease expiries	**592**	613	**592**	2,067
Total exploration and evaluation	**1,844**	1,158	**3,261**	3,646

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

Exploration and evaluation ("E&E") costs include lease rentals on undeveloped acreage, geological and geophysical costs and lease expiries. E&E costs of $1.8 million in the second quarter of 2013 were $0.7 million higher than the prior year as a result of additional seismic expenditures in 2013 in conjunction with Perpetual's Mannville and Edson capital development plan. Year to date E&E costs of $3.3 million in 2013 were 11 percent lower than the prior year with fewer lease expiries, partially offset by additional seismic purchases.

General and administrative ("G&A") expenses

	Three months ended June 30		Six months ended June 30	
($ thousands except as noted)	**2013**	2012	**2013**	2012
Cash G&A expense	**4,933**	5,598	**10,165**	12,466
Compensation expense (non-cash)	**715**	2,084	**1,359**	3,382
Total G&A expense	**5,648**	7,682	**11,524**	15,848
Cash G&A expense – per boe	**$2.75**	$2.92	**$2.96**	$3.16
Compensation expense (non-cash) ($/boe)	**$0.40**	$1.09	**$0.40**	$0.86

G&A expenses for the second quarter of 2013 totaled $4.9 million, 12 percent lower than the prior year expense of $5.6 million, primarily due to reduced staffing levels and lower consulting fees.

Share-based compensation expense of $0.7 million decreased 66 percent from the three months ended June 30, 2012 due to an increase in the number of share based awards vested combined with a reduction in awards granted.

Gains on dispositions

Perpetual recorded gains on dispositions of $51.2 million during the first six months of 2013, including minor property dispositions as well the Elmworth property disposition completed in the first quarter of 2013. Property dispositions in 2013 have generated net cash proceeds of $78.0 million resulting in gains on dispositions of $51.2 million. The Elmworth property had no production or funds flow from operations and therefore the disposition had no negative effect on Perpetual's 2013 projected production or funds flow. Proceeds from dispositions were applied to reduce outstanding bank debt and to buy back an additional 20 percent interest in WGS LP.

Depletion and depreciation ("D&D")

	Three months ended June 30		Six months ended June 30	
($ thousands except as noted)	**2013**	2012	**2013**	2012
Depletion and depreciation	**24,517**	27,384	**46,209**	55,445
Per boe	**$13.67**	$14.35	**$13.45**	$14.04

Perpetual recorded $24.5 million of depletion and depreciation expense in the second quarter of 2013. On a boe basis, second quarter 2013 D&D expense of $13.67/boe decreased five percent from $14.35/boe in 2012 reflecting a lower depletable cost base due to impairment losses recorded at December 31, 2012 related to reserve reductions at year end associated with low natural gas prices.

Finance expenses

Interest

	Three months ended June 30		Six months ended June 30	
($ thousands)	**2013**	2012	**2013**	2012
Interest	**7,287**	8,208	**14,413**	17,299
Amortization of debt issue costs	**880**	1,115	**1,739**	2,230
Interest	**8,167**	9,323	**16,152**	19,529

Perpetual recorded interest expense of $7.3 million during the second quarter of 2013 which included interest on the Corporation's Senior Notes of $3.3 million (Q2 2012 - $3.3 million), interest on convertible debentures of $2.9 million (Q2 2012 - $4.1 million) and interest on bank debt of $1.1 million (Q2 2012 - $0.8 million). The reduction in interest expense on both a quarter over quarter and year to date basis is consistent with reduced outstanding bank debt from property dispositions as well as the repayment of $74.9 million convertible debentures which matured in June 2012.

Other finance expenses

($ thousands)	Three months ended June 30 2013	2012	Six months ended June 30 2013	2012
Accretion on decommissioning obligations	**982**	1,285	**1,965**	2,618
Loss on marketable securities	**506**	1,307	**545**	250
Loss on call option	**–**	–	**1,274**	–
Gain on retained investment in former subsidiary	**–**	(2,104)	**–**	(2,104)
Unrealized gain related to gas storage	**–**	(1,060)		(3,636)
Other finance expenses	**1,488**	(572)	**3,784**	(2,872)

Other finance expenses for the second quarter of 2013 included accretion on decommissioning obligations of $1.0 (Q2 2012 - $1.3 million) and a loss of $0.5 million (Q2 2012 - $1.3 million) recorded on the mark-to-market valuation of the Corporation's interest in marketable securities held at the end of the quarter. Other finance expenses in the prior year also included $3.2 million in gains related to Perpetual's interest in WGS LP.

Funds flow

For the three months ended June 30	2013 ($ thousands)	2013 ($/boe)	2012 ($ thousands)	2012 ($/boe)
Revenue [(1)]	**58,460**	**32.60**	49,737	26.07
Royalties	**(7,388)**	**(4.12)**	(3,131)	(1.64)
Operating expenses	**(21,776)**	**(12.15)**	(19,785)	(10.37)
Transportation costs	**(2,733)**	**(1.52)**	(1,972)	(1.03)
Operating netback [(2) (3)]	**26,563**	**14.81**	24,849	13.03
Gas storage operating netback [(3)]	**–**	**–**	857	0.45
Gas over bitumen royalty adjustments	**3,696**	**2.06**	1,358	0.71
Exploration and evaluation [(4)]	**(753)**	**(0.42)**	(590)	(0.31)
Cash G&A	**(4,933)**	**(2.75)**	(5,598)	(2.93)
Interest [(4)]	**(7,287)**	**(4.06)**	(8,208)	(4.30)
Funds flow [(2)]	**17,286**	**9.64**	12,668	6.65

For the six months ended June 30	2013 ($ thousands)	2013 ($/boe)	2012 ($ thousands)	2012 ($/boe)
Revenue [(1)]	**102,427**	**29.81**	103,229	26.14
Royalties	**(9,864)**	**(2.87)**	(6,749)	(1.71)
Operating expenses	**(39,929)**	**(11.62)**	(39,848)	(10.09)
Transportation costs	**(5,088)**	**(1.48)**	(4,111)	(1.04)
Operating netback [(2) (3)]	**47,546**	**13.84**	52,521	13.30
Gas storage operating netback [(3)]	**–**	**–**	2,229	0.56
Gas over bitumen royalty adjustments	**5,248**	**1.53**	3,431	0.87
Exploration and evaluation [(4)]	**(1,396)**	**(0.41)**	(1,247)	(0.32)
Cash G&A	**(10,165)**	**(2.96)**	(12,466)	(3.16)
Interest [(4)]	**(14,413)**	**(4.20)**	(17,299)	(4.38)
Funds flow [(2)]	**26,820**	**7.80**	27,169	6.87

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

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

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

4) Excludes non-cash items.

Funds flow increased by $4.6 million to $17.3 million ($0.12 per common share) for the second quarter of 2013 as compared to $12.7 million ($0.09 per common share) for the same period in 2012 reflecting the increase in the operating netback and gas over bitumen royalty adjustments as well as a reduction in G&A and interest expense in 2013. For both the six months ended June 30, 2013 and 2012, no dividends from WGS LP were declared.

Net income (loss)

The Corporation recorded a net loss of $5.3 million ($0.04 per basic common share) for the second quarter of 2013 compared to net earnings of $25.9 million ($0.18 per basic common share) for the prior year. Second quarter 2012 net earnings included a $40.0 million gain on the sale of 90 percent of the Corporation's interest in WGS LP.

LIQUIDITY, CAPITALIZATION AND FINANCIAL RESOURCES

($ thousands except as noted)	**June 30, 2013**	December 31, 2012
Bank debt	**58,861**	77,974
Senior Notes, measured at principal amount	**150,000**	150,000
Convertible debentures, measured at principal amount	**159,867**	159,972
Adjusted working capital deficiency (1)	**1,365**	8,637
Net debt	**370,093**	396,583
Common shares outstanding at end of period (thousands)	**148,274**	147,455
Market price at end of period	**1.15**	1.15
Market value of common shares	**170,515**	169,573
Total capitalization (2)	**540,608**	566,156
Net debt as a percentage of total capitalization	**68.5%**	70.0%
Funds flow (2)	**48,738**	49,087
Net debt to funds flow ratio (times) (2)	**7.6**	8.1

(1) Adjusted working capital deficiency excludes short-term derivative assets and liabilities related to the Corporation's hedging activities, assets and liabilities held for sale and share-based payment liabilities. Working capital deficiency does not include approximately $9.9 million in gas over bitumen royalty adjustments not yet received as of June 30, 2013.

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

Bank debt and working capital

At June 30, 2013, Perpetual had $58.9 million outstanding on its credit facility, down $19.1 million from December 31, 2012 ($78.0 million), as proceeds from property dispositions were applied against outstanding bank debt in 2013. Second quarter capital expenditures of $15.7 million were entirely funded from funds flow of $17.3 million. The acquisition of an additional 20 percent interest in WGS LP of $19.1 million was largely drawn from the existing credit facility.

Perpetual's adjusted working capital deficiency at June 30, 2013 was $1.4 million compared to $8.6 million at December 31, 2012. The Corporation will typically have a working capital deficiency as revenues are collected 25 days after the month of delivery, whereas operating and capital expenditures are paid on 30 to 45 day terms. Working capital deficiencies will be funded from future sales revenues and by additional credit facility borrowings as required.

The Corporation's credit facility is with a syndicate of Canadian chartered banks. 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 $110 million on July 31, 2013, including a demand loan of $95 million and a working capital facility of $15 million. The reduction from the previous borrowing base of $125.0 million was 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 on or before October 31, 2013. At current interest rates and applicable margins, the effective interest rate on the Corporation's bank debt is approximately 5.5 percent. Collateral for the credit facility is provided by a floating-charge debenture covering all existing and acquired property of the Corporation as well as unconditional full liability guarantees from all subsidiaries in respect of amounts borrowed under the facility.

Reconciliation of net debt ($ millions)	
Net debt, December 31, 2012 [1]	396.6
Capital expenditures [2]	49.9
Dispositions, net of acquisitions	(70.8)
Funds flow [3]	(26.8)
Increased interest in gas storage (WGS LP) [4]	19.1
Unrealized loss on marketable securities	0.5
Expenditures on decommissioning obligations	0.5
Gas over bitumen royalty adjustments not yet received	1.1
Net debt, June 30, 2013 [1]	370.1

(1) Excludes gas over bitumen royalty adjustments not yet received of $9.9 million at June 30, 2013 ($8.8 million at December 31, 2012) which are recorded as a reduction to the gas over bitumen royalty obligation until received.

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

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

(4) The Corporation's investment in WGS LP is accounted for using the equity method.

Senior notes

At June 30, 2013, Perpetual had $150 million of Senior Notes outstanding which mature on March 15, 2018 and bear interest at 8.75 percent, payable semi-annually. The Senior Notes are direct senior unsecured obligations of Perpetual ranking pari passu with all other present and future unsecured and unsubordinated indebtedness of the Corporation. The Senior Notes are carried on the statement of financial position at the par value less unamortized debt issue costs. The fair value of the Senior Notes at August 9, 2013 was $144.0 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 June 30, 2013. The Senior Notes indenture also contains restrictions on certain payments including dividends, retirement of subordinated debt and stock repurchases. Allowable payments are increased by 50 percent of cash flow from operating activities and reduced by restricted payments.

Convertible debentures

At June 30, 2013, the Corporation had outstanding 7.25 percent convertible debentures (7.25% Debentures) that mature on January 15, 2015 as well as 7.0 percent convertible debentures (7.0% Debentures) that mature on December 31, 2015. In June 2013, Perpetual initiated a Normal Course Issuer Bid to purchase a portion of the outstanding convertible debentures for cancellation subject to Toronto Stock Exchange restrictions. During the second quarter of 2013, the Corporation purchased and cancelled 36,000 7.25% Debentures and 69,000 7.0% Debentures for a total cash outlay of $102,287. All series of convertible debentures are repayable on the maturity date in cash or in common shares, at the option of Perpetual. Additional information on convertible debentures is as follows:

Convertible debentures	7.25%	7.00%
Principal issued ($ millions)	99.9	59.9
Principal outstanding ($ millions)	99.9	59.9
Trading symbol on the Toronto Stock Exchange	PMT.DB.D	PMT.DB.E
Maturity date	January 31, 2015	December 31, 2015
Conversion price ($ per common share)	7.50	7.00
Fair market value ($ millions) [1]	96,413	57,714

(1) Fair values of debentures are calculated by multiplying the number of debentures outstanding at August 9, 2013 by the quoted market price per debenture at that date.

Equity

Perpetual's total capitalization was $540.6 million at June 30, 2013. Net debt to total capitalization decreased to 68.5 percent at June 30, 2013 as compared to 70.0 percent at December 31, 2012 due to proceeds on the disposition of Elmworth used to reduce net debt, offset by capital expenditures and acquisitions.

Weighted average common shares outstanding for the six months ended June 30, 2013 totaled 147.9 million (2012 – 147.0 million). On August 9, 2013 there were 148,346 million common shares outstanding.

SUMMARY OF QUARTERLY RESULTS

($ thousands except as noted)	**Q2 2013**	Q1 2013	Q4 2012	Q3 2012
Oil and natural gas revenues [1]	**57,187**	42,477	44,468	40,028
Production				
Natural gas (MMcf/d)	**91.9**	88.6	88.3	93.7
Oil and NGL (boe/d)	**4,384**	3,483	3,536	3,336
Total (boe/d)	**19,708**	18,244	18,250	18,950
Funds flow [2]	**17,286**	9,534	11,158	10,760
Per common share – basic	**0.12**	0.06	0.08	0.07
Net income (loss)	**(5,327)**	32,332	(52,879)	(6,158)
Per common share – basic	**(0.04)**	0.22	(0.36)	(0.04)
– diluted	**(0.04)**	0.21	(0.36)	(0.04)
Realized commodity price ($/boe) [3]	**32.60**	26.80	31.08	27.48
Average AECO Monthly Index price ($/Mcf)	**3.59**	3.08	3.06	2.19
WTI light oil ($US/bbl)	**94.22**	93.40	94.21	92.22

($ thousands except as noted)	Q2 2012	Q1 2012	Q4 2011 [4]	Q3 2011
Oil and natural gas revenues [1]	40,444	51,197	59,859	58,400
Production				
Natural gas (MMcf/d)	105.1	113.7	126.8	123.5
Oil and NGL (boe/d)	3,446	3,474	2,481	1,995
Total (boe/d)	20,962	22,428	23,617	22,583
Funds flow [2]	12,668	14,501	11,586	19,318
Per common share – basic	0.09	0.10	0.08	0.13
Net income (loss)	25,899	(13,040)	(42,998)	(24,343)
Per common share – basic	0.18	(0.09)	(0.29)	(0.17)
– diluted	0.17	(0.09)	(0.29)	(0.17)
Realized commodity price ($/boe) [3]	26.07	26.21	27.48	26.76
Average AECO Monthly Index price ($/Mcf)	1.84	2.52	3.44	3.72
WTI light oil ($US/bbl)	93.49	100.51	94.05	91.89

(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 NGLrevenues measured on a per boe basis.

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

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

Perpetual uses derivatives to mitigate the effect of volatility in oil and natural gas prices on funds flows. In addition, Perpetual successfully executed an asset base transformation and commodity diversification strategy to enhance the corporate production base with higher-priced oil and NGL volumes. Funds flows will trend with Perpetual's production mix, realized commodity prices and changes in production levels. Consistent with revenues, funds flows were higher in the third quarter of 2011 and the second quarter of 2013 and lowest in the first quarter of 2013.

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

2013 OUTLOOK AND SENSITIVITIES

Perpetual expects capital spending for 2013 to be $75 to $85 million. Consistent with the strategy in the first half, capital spending in the second half of 2013 will be driven by Perpetual's commodity diversification strategy, with spending focused on Mannville heavy oil drilling and liquids-rich gas horizontal drilling and infrastructure in the Alberta deep basin. Planned capital spending for remainder of the second half of 2013 includes up to nine (8.7 net) additional Mannville heavy oil wells, up to six (3.0 net) liquids-rich natural gas wells in West Central Alberta and additional facility and infrastructure spending on the Corporation's West Edson facilities.

In addition, Perpetual will continue to pursue dispositions with proceeds from any potential divestitures to be utilized to strengthen the balance sheet. Perpetual may adjust its planned capital spending program based on prevailing commodity prices as allowed by the Corporation's diverse inventory of exploration and development opportunities.

Sensitivities

Perpetual estimates that 2013 funds flow will total $60 to $70 million based on current forward commodity prices with oil and liquids production averaging 3,900 to 4,200 bbl/d and natural gas averaging 85 to 95 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 on an annualized basis:

Funds flow sensitivity analysis ($ thousands)	Change	Estimated Impact on Annual 2013 Funds Flow
Business Environment		
Natural gas price at AECO	$0.25/Mcf	4,100
Oil price at WTI	$5.00/bbl	3,600
Interest rate on bank debt	1%	250
Operational		
Natural gas production	5 MMcf/d	2,300
Oil and NGL production	100 bbl/d	300
Operating or other expenses	$0.50/boe	1,700

CORPORATE GOVERNANCE

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

ACCOUNTING

Future accounting pronouncements

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

Proposed standard	Description	Previous standard	Effective date
IFRS 9 Financial Instruments	Addresses the classification and measurement of financial assets and financial liabilities	IAS 39 – Financial Instruments: Recognition and Measurement	January 1, 2015

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

INTERNAL CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

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

ADVISORIES

FORWARD-LOOKING INFORMATION: Certain statements contained in this MD&A constitute forward-looking information and statements within the meaning of applicable securities laws. This information and these statements relate to future events or to future performance. All statements other than statements of historical fact may be forward-looking 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.

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

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

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

Funds flow GAAP reconciliation	Three months ended June 30		Six months ended June 30	
($ thousands, except per common share amounts)	**2013**	2012	**2013**	2012
Cash flow from operating activities	**16,579**	9,449	**22,163**	26,349
Exploration and evaluation costs (1)	**499**	(45)	**1,273**	332
Expenditures on decommissioning obligations	**62**	266	**464**	1,159
Gas over bitumen royalty obligation adjustments not yet received	**730**	(829)	**1,144**	504
Changes in non-cash operating working capital	**(584)**	3,827	**1,776**	(1,175)
Funds flow	**17,286**	12,668	**26,820**	27,169
Funds flow per common share (2)	**$0.12**	$0.09	**$0.18**	0.18

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

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

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

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

Total capitalization: Total capitalization is equal to net debt (net bank debt plus Senior Notes and convertible debentures, measured at their principal amount) plus market value of issued equity and is used by management to analyze leverage. Total capitalization is not intended to represent the total funds from equity and debt received by the Corporation upon issuance.

BOE AND MCFE CONVERSIONS: Barrel of oil equivalent ("boe") and Mcf equivalent ("Mcfe") may be misleading, particularly if used in isolation. In accordance with National Instrument 51-101 ("NI 51-101"), a conversion ratio for oil of 1 bbl: 6 Mcf has been used, which is based on an energy equivalency conversion method primarily applicable at the burner tip and does not 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.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at	June 30, 2013	December 31, 2012
(Cdn$ thousands, unaudited)		
Assets		
Current assets		
Accounts receivable	**$ 33,173**	$ 33,787
Prepaid expenses and deposits	**1,059**	2,928
Marketable securities	**1,418**	1,963
Derivatives (note 12)	**2,028**	3,703
Assets held for sale (note 3)	**-**	22,321
	37,678	64,702
Equity-method investment (note 6)	**27,438**	5,493
Property, plant and equipment (note 4)	**558,547**	570,415
Exploration and evaluation (note 5)	**84,953**	80,494
	670,938	656,402
Total assets	**$ 708,616**	$ 721,104
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 37,015**	$ 47,315
Share based payment liability	**12**	24
Derivatives (note 12)	**2,862**	1,452
Bank indebtedness (note 8)	**58,861**	-
Liabilities associated with assets held for sale (note 3)	**-**	93
	98,750	48,884
Derivatives (note 12)	**4,256**	8,402
Bank indebtedness (note 8)	**-**	77,974
Senior notes	**147,446**	147,177
Convertible debentures	**153,041**	151,673
Gas over bitumen royalty obligation	**44,602**	44,553
Decommissioning obligations (note 7)	**196,063**	206,379
	545,408	636,158
Total liabilities	**644,158**	685,042
Equity		
Share capital	**1,256,999**	1,255,450
Equity component of convertible debentures	**13,979**	13,988
Contributed surplus	**19,159**	19,308
Deficit	**(1,225,679)**	(1,252,684)
Total equity	**64,458**	36,062
Total liabilities and equity	**$ 708,616**	$ 721,104

Subsequent event (note 8)

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 June 30		For the six months ended June 30,	
	2013	2012	**2013**	2012
(Cdn$ thousands, except per share amounts, unaudited)				
Revenue				
Oil and natural gas	**$ 57,187**	$ 40,444	**$ 99,664**	$ 91,641
Royalties	**(7,388)**	(3,131)	**(9,864)**	(6,749)
	49,799	37,313	**89,800**	84,892
Change in fair value of commodity price derivatives (note 12)	**7,809**	10,553	**7,404**	34,250
Gas over bitumen	**2,935**	746	**4,055**	1,759
	60,543	48,612	**101,259**	120,901
Expenses				
Production and operating	**21,776**	19,953	**39,929**	41,879
Transportation	**2,733**	1,972	**5,088**	4,111
Exploration and evaluation (note 5)	**1,844**	1,158	**3,261**	3,646
General and administrative	**5,648**	7,682	**11,524**	15,848
Gain on dispositions (notes 3 and 4)	**(84)**	(40,198)	**(51,183)**	(26,066)
Depletion and depreciation (note 4)	**24,517**	27,384	**46,209**	55,445
	56,434	17,951	**54,828**	94,863
Income from operating activities	**4,109**	30,661	**46,431**	26,038
Financial items				
Interest (note 9)	**8,167**	9,323	**16,152**	19,529
Accretion on decommissioning obligations	**982**	1,285	**1,965**	2,618
Loss on marketable securities	**506**	1,307	**545**	250
Loss on call option	**-**	-	**1,274**	-
Gain on retained investment in former subsidiary	**-**	(2,104)	**-**	(2,104)
Unrealized gain on gas storage obligation derivative	**-**	(1,060)	**-**	(3,636)
	9,655	8,751	**19,936**	16,657
Share of net income (loss) of equity-method investment (note 6)	**219**	(275)	**510**	(275)
Income (loss) before income tax	**(5,327)**	21,635	**27,005**	9,106
Deferred income tax benefit	**-**	(4,264)	**-**	(3,753)
Net income (loss) and comprehensive income (loss)	**(5,327)**	25,899	**27,005**	12,859
Income (loss) per share (note 13)				
Basic	**$ (0.04)**	$ 0.18	**$ 0.18**	$ 0.09
Diluted	**$ (0.04)**	$ 0.17	**$ 0.18**	$ 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

	Share Capital	Equity Component of Convertible Debentures	Contributed Surplus	Deficit	Total Equity
(Cdn$ thousands, unaudited)					
Balance at January 1, 2013	$ 1,255,450	$ 13,988	$ 19,308	$ (1,252,684)	$ 36,062
Net income	-	-	-	27,005	27,005
Common shares issued – Restricted Rights Plan	1,193	-	(1,182)	-	11
Common shares issued – Share Option Plan	21	-	(12)	-	9
Common shares issued – Performance Share Units Plan	335	-	(335)	-	-
Share based compensation expense	-	-	1,359	-	1,359
Share based payment liability	-	-	12	-	12
Redemption of convertible debentures	-	(9)	9	-	-
Balance at June 30, 2013	**$ 1,256,999**	**$ 13,979**	**$ 19,159**	**$ (1,225,679)**	**$ 64,458**

	Share Capital	Equity Component of Convertible Debentures	Contributed Surplus	Deficit	Total Equity
(Cdn$ thousands, unaudited)					
Balance at January 1, 2012	$ 1,254,273	$ 13,988	$ 15,496	$ (1,206,506)	$ 77,251
Net income	-	-	-	12,859	12,859
Common shares issued – Restricted Rights Plan	654	-	(654)	-	-
Share based compensation expense	-	-	3,535	-	3,535
Share based payment liability	-	-	313	-	313
Balance at June 30, 2012	$ 1,254,927	$ 13,988	$ 18,690	$ (1,193,647)	$ 93,958

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the three months ended June 30,		For the six months ended June 30,	
	2013	2012	**2013**	2012
(Cdn$ thousands, unaudited)				
Operating Activities				
Net income (loss)	**$ (5,327)**	$ 25,899	**$ 27,005**	$ 12,859
Adjustments to add (deduct) non-cash items:				
Depletion and depreciation	**24,517**	27,384	**46,209**	55,445
Accretion on decommissioning obligations	**982**	1,285	**1,965**	2,618
Exploration and evaluation	**592**	613	**592**	2,067
Gain on dispositions	**(84)**	(40,198)	**(51,183)**	(26,066)
Change in fair value of commodity price derivatives	**(6,536)**	(235)	**(4,641)**	(18,402)
Interest	**880**	1,115	**1,739**	2,230
Loss on marketable securities	**506**	1,307	**545**	250
Share based compensation	**715**	2,084	**1,359**	3,382
Gain on retained investment in former subsidiary	**-**	(2,104)	**-**	(2,104)
Unrealized gain on gas storage obligation derivative	**-**	(1,060)	**-**	(3,636)
Loss on call option	**-**	-	**1,274**	-
Share of net (income) loss of equity-method investment	**(219)**	275	**(510)**	275
Deferred income tax benefit	**-**	(4,264)	**-**	(3,753)
Gas over bitumen royalty obligation adjustments	**761**	612	**1,193**	1,672
Gas over bitumen royalty obligation adjustments received (not yet received)	**(730)**	829	**(1,144)**	(504)
Expenditures on decommissioning obligations	**(62)**	(266)	**(464)**	(1,159)
Change in non-cash working capital (note 10)	**584**	(3,827)	**(1,776)**	1,175
Net cash from operating activities	**16,579**	9,449	**22,163**	26,349
Financing Activities				
Change in bank indebtedness	**(5,181)**	(5,065)	**(19,113)**	(45,328)
Redemption of convertible debentures	**(102)**	(74,925)	**(102)**	(74,925)
Common share issued	**20**	-	**20**	-
Change in non-cash working capital (note 10)	**6,135**	4,912	**2,029**	2,036
Net cash from (used in) financing activities	**872**	(75,078)	**(17,166)**	(118,217)
Investing Activities				
Acquisitions	**(5,466)**	(14)	**(7,269)**	(851)
Capital expenditures	**(9,861)**	(9,651)	**(48,543)**	(40,336)
Proceeds on dispositions (notes 3 and 4)	**84**	80,650	**78,014**	144,040
Proceeds on sale of marketable securities	**-**	-	**-**	2,120
Increased interest in equity method investment (note 6)	**(19,129)**	-	**(19,129)**	-
Change in non-cash working capital (note 10)	**(13,072)**	(5,356)	**(8,070)**	(13,105)
Net cash from (used in) investing activities	**(47,444)**	65,629	**(4,997)**	91,868
Change in cash and cash equivalents	**(29,993)**	-	**-**	-
Cash and cash equivalents, beginning of period	**29,993**	-	**-**	-
Cash and cash equivalents, end of period	**$ -**	$ -	**$ -**	$ -
Interest paid	**$ 3,319**	$ 5,378	**$ 14,656**	$ 17,340
Taxes paid	**$ -**	$ -	**$ -**	$ -

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

SELECTED NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and six months ended June 30, 2013

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

1. REPORTING ENTITY

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

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

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

2. BASIS OF PREPARATION

a) Statement of compliance

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

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

These condensed interim consolidated financial statements of the Corporation were approved and authorized for issue by the Board of Directors on August 9, 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 an asset or paid to transfer a liability in an orderly transaction. IFRS 13 also establishes a framework for measurement of fair value and requires disclosures that allow users to evaluate fair value methodology and the inputs used.

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

3. ASSETS HELD FOR SALE

During the first quarter of 2013, the Corporation closed the dispositions of all assets and associated liabilities presented as held for sale at December 31, 2012 for net cash proceeds of $76.8 million resulting in a gain on dispositions of $51.8 million. The dispositions consisted 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	49,342	83	49,425
Change in decommissioning obligation estimates	(12,574)	-	(12,574)
Transferred from exploration and evaluation	860	-	860
Acquisitions	101	-	101
Dispositions	(8,950)	-	(8,950)
Reclassification to assets held for sale	(1,583)	-	(1,583)
June 30, 2013	**2,500,636**	**6,370**	**2,507,006**
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	(45,963)	(246)	(46,209)
Dispositions	7,062	-	7,062
June 30, 2013	**(1,942,732)**	**(5,727)**	**(1,948,459)**
Carrying amount			
December 31, 2012	569,609	806	570,415
June 30, 2013	**557,904**	**643**	**558,547**

At June 30, 2013, property, plant and equipment included $7.9 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 six months ended June 30, 2013, the Corporation disposed of oil and natural gas properties, including those classified as assets held for sale as at December 31, 2012 (note 3), for total cash proceeds of $78.0 million (2012 – $144.0 million). Gains on dispositions totaling $51.2 million (2012 – $26.1 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	1,212
Acquisitions	5,892
Transferred to property, plant and equipment	(860)
Non-cash exploration and evaluation expense	(592)
Reclassification to assets held for sale	(1,193)
June 30, 2013	**84,953**

During the six months ended June 30, 2013, $2.7 million (2012 – $1.6 million) in costs were charged directly to exploration and evaluation expense in net income.

6. EQUITY-METHOD INVESTMENT

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

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

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

For the six months ended June 30, 2013, Perpetual recognized income of $0.5 million (2012 – loss of $0.3 million) representing its share of net income of WGS LP.

7. DECOMMISSIONING OBLIGATIONS

The following table reconciles the Corporation's decommissioning obligations:

Balance, December 31, 2011	242,860
Obligations acquired	45
Obligations incurred	1,308
Obligations disposed	(30,377)
Change in risk free rate	9,569
Change in estimates	(19,921)
Obligations settled	(1,825)
Accretion	4,813
Reclassification to liabilities associated with assets held for sale	(93)
December 31, 2012	206,379
Obligations incurred	818
Obligations disposed	(61)
Change in risk free rate	(12,574)
Obligations settled	(464)
Accretion	1,965
June 30, 2013	**196,063**

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

8. BANK INDEBTEDNESS

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 matured on July 31, 2013. The $15 million acquisition facility was 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. With the exception of the matter discussed below the Corporation was in compliance with the lenders' covenants at June 30, 2013. In addition to amounts outstanding under the credit facility, the Corporation has outstanding letters of credit in the amount of $6.6 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 June 30, 2013 was 5.5 percent (December 31, 2012 – 5.5 percent).

On June 6, 2013, the Corporation announced that the Toronto Stock Exchange accepted Perpetual's intentions to purchase and cancel its convertible debentures under a Normal Course Issuer Bid (the "Bid"). Purchases under the Bid totaled an immaterial principal amount of $0.1 million in June 2013. In certain instances, the Corporation requires consent of the lenders to repurchase its convertible debentures prior to their repurchase. Subsequent to June 30, 2013, the Corporate received consent and a waiver of the technical requirement for the consent prior to the repurchase. The bank debt was classified as a current liability at June 30, 2013 and until consent and waiver was received on August 7, 2013 at which time bank indebtedness was reclassified to long term.

9. INTEREST

The components of interest are as follows:

	For the three months ended June 30		For the six months ended June 30	
	2013	2012	**2013**	2012
Interest on convertible debentures	**3,612**	5,055	**7,181**	10,074
Interest on Senior Notes	**3,407**	3,408	**6,776**	6,815
Interest on bank indebtedness	**1,148**	860	**2,195**	2,640
Interest	**8,167**	9,323	**16,152**	19,529

10. NON-CASH WORKING CAPITAL INFORMATION

	For the three months ended June 30		For the six months ended June 30	
	2013	2012	**2013**	2012
Accounts receivable	**2,874**	(1,420)	**614**	4,343
Prepaid expenses and deposits	**1,623**	910	**1,869**	1,296
Accounts payable and accrued liabilities	**(10,850)**	(3,761)	**(10,300)**	(15,533)
Change in non-cash working capital	**(6,353)**	(4,271)	**(7,817)**	(9,894)

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

	For the three months ended June 30		For the six months ended June 30	
	2013	2012	**2013**	2012
Operating	**584**	(3,827)	**(1,776)**	1,175
Financing	**6,135**	4,912	**2,029**	2,036
Investing	**(13,072)**	(5,356)	**(8,070)**	(13,105)
Change in non-cash working capital (1)	**(6,353)**	(4,271)	**(7,817)**	(9,894)

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

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

11. COMMODITY AND FOREIGN EXCHANGE CONTRACTS

Realized gains on commodity price derivatives recognized in net income for the six months ended June 30, 2013 were $2.8 million (2012 – $15.8 million). These realized gains included $1.0 million in call option premiums received (2012 - nil) and $0.9 million in respect of settlement of contracts prior to maturity (2012 – nil).

Natural gas contracts

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

Type of Contract	Perpetual Sold/Bought	Volumes at AECO (Gj/d)	Price ($/Gj)	Term
Financial (1)	sold	40,000	$3.59	July 2013 – December 2013

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

At June 30, 2013, the Corporation had entered into the following financial call option gas sales arrangements, whereby the Corporation's counterparty has the right to settle 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 June 30, 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	2,250	($22.79)	July 2013 – December 2013
Financial	sold	1,000	($22.63)	January 2014 – December 2014

At June 30, 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	July 2013 – December 2013
Put	bought	(500)	$95.00	July 2013 – December 2013
Call (1)	sold	500	$118.15	July 2013 – December 2013
Put	bought	(500)	$95.00	July 2013 – December 2013
Call	sold	500	$89.65	July 2013 – December 2013
Put	bought	(500)	$80.00	July 2013 – December 2013
Call	sold	250	$97.00	July 2013 – December 2013
Put	bought	(250)	$90.00	July 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 June 30, 2013, the Corporation had entered into the following financial call option oil sales arrangements, whereby the Corporation's counterparty has the right to settle specified volumes of oil at specified prices in the future periods. Any subsequent changes in the fair values of the call options are included in change in fair values of commodity derivatives in net income or loss.

Type of Contract	Perpetual Sold/Bought	Volumes at WTI (bbl/d)	Price ($USD/bbl)	Term
Financial (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 June 30, 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	July 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 June 30, 2013, the Corporation had entered into the following $USD forward sales arrangements to limit exposure to the effects of strength in the Canadian dollar on natural gas prices.

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

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

12. FINANCIAL INSTRUMENTS

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

	Current	Non Current	Total
December 31, 2011	5,763	(3,173)	2,590
Unrealized gain on gas storage obligation derivative	-	3,636	3,636
Unrealized 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	(2,087)	555	(1,532)
Unrealized gain (loss) on financial oil call swaptions	2,654	(951)	1,703
Unrealized gain on oil call options	221	4,542	4,763
Unrealized gain on forward foreign exchange contracts	(293)	-	(293)
Change in fair value of WGS LP Call Option	(3,580)	-	(3,580)
June 30, 2013	**(834)**	**(4,256)**	**(5,090)**

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
Derivative assets	4,577	-	4,577
Derivative liabilities offset in the statement of financial position	(2,549)	-	(2,549)
Net derivative assets	2,028	-	2,028
Derivative liabilities	(2,862)	(4,256)	(7,118)
June 30, 2013	**(834)**	**(4,256)**	**(5,090)**

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

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	**2013**	2012
Realized gain (loss) on natural gas and oil contracts	**966**	10,080	**1,461**	15,240
Realized gain on forward foreign exchange contracts	**307**	238	**349**	608
Unrealized gain (loss) on natural gas and oil contracts	**5,053**	(4,543)	**(258)**	10,335
Unrealized gain on financial oil call swaption	**832**	3,494	**1,703**	2,663
Unrealized gain (loss) on physical natural gas and oil contracts	**(29)**	(3,389)	**(1,274)**	853
Unrealized gain on oil call options	**1,647**	5,650	**4,763**	5,334
Unrealized gain (loss) on power contracts	**-**	(12)	**-**	(631)
Unrealized loss on forward foreign exchange contracts	**(967)**	(965)	**(293)**	(152)
Option premiums received	**-**	-	**953**	-
	7,809	10,553	**7,404**	34,250

Fair value of financial assets and liabilities

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

	June 30, 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	**1,418**	**1,418**	**-**	2,928	2,928	-
Derivatives	**2,028**	**-**	**2,028**	3,703	-	3,703
Financial liabilities:						
Financial liabilities at amortized cost						
Senior notes	**147,446**	**-**	**141,750**	147,177	-	144,000
Convertible debentures	**153,041**	**155,401**	**-**	151,673	151,123	-
Fair value through profit and loss						
Derivatives	**7,118**	**-**	**7,118**	9,854	-	9,854

Natural gas sensitivity analysis

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

13. PER SHARE INFORMATION

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	**2013**	2012
(Cdn$ thousands, except per share amounts)				
Net income (loss) – basic	**(5,327)**	25,899	**27,005**	12,859
Effect of dilutive securities	**-**	3,503	**-**	-
Net income (loss) – diluted	**(5,327)**	29,402	**27,005**	12,859
Weighted average common shares outstanding – basic	**148,015**	147,056	**147,853**	147,016
Effect of dilutive securities	**-**	22,767	**2,139**	659
Weighted average common shares outstanding – diluted	**148,015**	169,823	**149,992**	147,675
Income (loss) per share				
Basic	**$ (0.04)**	$ 0.18	**$ 0.18**	$ 0.09
Diluted	**$ (0.04)**	$ 0.17	**$ 0.18**	$ 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

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

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

Vicki L. Benoit
Vice President, Production Operations

Jeffrey R. Green
Vice President, Corporate and Engineering Services

Gary C. Jackson
Vice President, Land and Acquisitions

Linda L. McKean
Vice President, Exploitation

Marcello M. Rapini
Vice President, Marketing

AUDITORS

KPMG LLP

BANKERS

Bank of Montreal

Canadian Imperial Bank of Commerce

The Bank of Nova Scotia

The Toronto-Dominion Bank

National Bank of Canada

ATB Financial

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